Q1FY26 - Result Update
11th July 2025

Tata Consultancy Services

Soft Q1; discretionary spend still muted.

CMP: INR 3,395

Rating: Accumulate

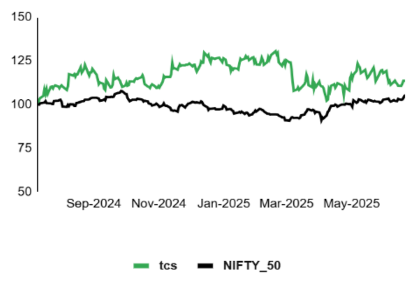
Target Price: INR 3,932

Stock Info	
BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	362
Mkt Cap (INR Cr)	12,23,745
52w H/L (INR)	4,585/3,060
Avg Yearly Vol (in 000')	2430

Shareholding Pattern % *(As on Mar, 2025)*	
Promoters	71.77
FII	12.04
DII	11.47
Public & Others	4.71

Stock Performance (%)	1m	3m	12m
TCS	-2.3	4.17	-13.4
NIFTY	1.0%	13.2%	4.2%

TCS Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114837

Tata Consultancy Services (TCS) reported INR Revenue, PAT beat expectations; margins unchanged; deals consistent; but 3.1% YoY drop in constant currency dampens overall sentiment. Constant currency revenue is down 3.1% YoY. USD Revenue de-growth 1.1% YoY/ -0.59% QoQ to $7421 mn against our estimate of $ 7,504 mn driven by across the BFSI +1.0%YoY, Technology & Services +1.8% and Energy , resources and Utilities +2.8% in CC growth while Communication & Media (-)9.6%, Life Sciences & Healthcare (-)9.6%,Consumer Business (-)3.1% , Regional Markets & Others (-) 8.6%.Reported revenue of INR (-1.62% QoQ/+1.3% YoY) to INR 63,437 Cr slightly above our estimates INR 62,613 Cr. India de-grew 21.7% YoY, followed by MEA at +9.4%, Latin America grew 3.5%. Continental Europe (-) 3.1%. North America (-) 2.7%.UK -1.3% in CC.EBIT margin was up 26bps QoQ/ down 21bps YoY at 24.46% slightly below our estimates of 24.66%(Decent Margin).Consolidated PAT stood at INR 12,760 Cr, up by 4.38% YoY/ +6.0% QoQ higher compared to our estimate of INR 12,040 Cr. Clients $100M+ down by 1 ; $10M+ up by 9 & $1M+ up by 26 YoY. Order book TCV at $9.4 Bn; North America TCV at $4.4 Bn; BFSI TCV at $2.5 Bn, Consumer Business TCV at $1.6 Bn. Headcount: 613,069 against 607,979 increased by 5,090 QoQ. LTM IT Services attrition rate slightly increased 13.8% against 13.3%.The company also announced dividend of INR 11 per share.

Investment Rationale

TCS reported a stable EBIT margin of 24.5% in Q1FY26, with a sequential improvement of 30 bps led by **BSNL 320bps reduction in equipment and software costs was outweighed by increased expenses** related to salaries (down 280bps) and subcontracting (down 30bps), primarily due to salary adjustments, greater investments, and an increase in workforce. Net hiring rose by 5k employees, even as attrition climbed 50bps QoQ to 13.8%. Going forward, levers such as improving utilization, workforce optimization, and pyramid rationalization should support margin resilience.

Discretionary tech spending remained subdued in Q1FY26 as clients delayed decisions due to geopolitical uncertainty and cost optimization efforts, further impacting revenue conversion. This cautious trend, highlighted last quarter, intensified during the period. However, demand for GenAI, cloud modernization, and regulatory tech stayed strong. **TCS continues to align with critical priorities using its contextual knowledge and AI-led offerings, with spending expected to rebound in BFSI and consumer sectors.**

Maintain TCV of $9.4 Bn in Q1FY26, up 13% YoY but down 23% QoQ, with a book-to-bill ratio of 1.27x. BFSI deal wins dropped to a 10-quarter low at $2.5 Bn, while the consumer segment held steady at $1.6 Bn. North America saw a decline in deal wins to $4.4 Bn from $6.8 Bn in Q4 FY25. **Despite execution softness due to project delays, the robust and broad-based pipeline supports management's confidence in better FY26 growth against FY25.**

Outlook & Valuation: The company remains confident in the medium-to-long-term demand environment despite near-term challenges like discretionary spend deferrals, project delays, and macro uncertainties. The company expects international markets to perform better in FY26 than FY25. A strong deal pipeline across geographies and verticals, coupled with robust TCV of $9.4 bn in Q1, supports this view. While utilization and margins were impacted by demand contraction, investments in AI, cloud, and talent are expected to yield results. We anticipates better performance in H2, aided by optimization levers like improving utilization and productivity. Cautious optimism persists, especially in BFSI and consumer verticals, with decision-making expected to improve as trade uncertainties ease. **Our growth estimates for FY26-FY28E 5.6% in USD terms and a margin of 24.9%/25.1%/25.2% for FY26E/FY27E/FY28E. We value TCS at a PE of 23x its FY28E EPS of INR 171, resulting in a revised target price of INR 3,932 per share. We maintain our rating to an Accumulate on the stock.**

Exhibit 1: Q1FY26 - Performance (Consolidated)

Particulars (INR Cr)	FY25	FY26E	FY27E	FY28E
Revenues (US$ mn)	30,179	31,425	33,677	35,490
Net Sales	2,55,324	2,66,937	2,82,677	2,99,449
EBIT	62,165	66,466	70,829	75,376
EBIT Margin	24.35%	24.90%	25.06%	25.17%
Net profit	48,553	52,588	56,994	61,885
EPS (INR)	134	145	157	171
ROE	50.70%	53.84%	57.83%	59.31%
ROCE	48.48%	50.76%	53.61%	53.89%
PE (x)	24.19	22.35	20.62	19.00

Source: Arihant Research, Company Filings

Exhibit 2: Q1FY26 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q1FY26	Q4FY25	Q1FY25	Q-o-Q	Y-o-Y
Revenue (Mn USD)	7,421	7,465	7,505	*-0.59%*	*-1.1%*
Net Revenue	63,437	64,479	62,613	*-1.62%*	*1.3%*
Employee Costs	37,715	36,762	36,416	*2.59%*	*3.6%*
Other Operating Expenses	8,847	10,737	9,535	*-17.60%*	*-7.2%*
Depreciation	1,361	1,379	1,220	*-1.31%*	*11.6%*
EBIT	15,514	15,601	15,442	*-0.56%*	*0.5%*
EBIT margin %	*24.46%*	*24.20%*	*24.66%*	*26bps*	*-21bps*
Other Income	1,660	1,028	962	*61.48%*	*72.6%*
Finance Costs	195	227	173	*-14.10%*	*12.7%*
Exceptional Items	-	-	-		
PBT	16,979	16,402	16,231	*3.52%*	*4.6%*
Tax Expense	4,160	4,109	4,126	*1.24%*	*0.8%*
Effective Tax Rate %	24.5%	25.1%	25.4%	*-2.20%*	*-3.6%*
Reported PAT	12,819	12,293	12,105	*4.28%*	*5.9%*
MI & Associates	-59	-69	-65	*-14.49%*	*-9.2%*
Consolidated PAT	12,760	12,224	12,040	*4.38%*	*6.0%*
PAT Margin %	*20.1%*	*19.0%*	*19.2%*	*116bps*	*89bps*
EPS (INR)	35.3	33.8	33.3	*4.38%*	*6.0%*

Source: Arihant Research, Company Filings

- **TCS – Q1FY26 Concall KTAs**
- Overall, the deal and pipeline are okay, but given the slow ramp-up and deferment of new deals, revenue for the immediate quarter will not be as high as expected.
- The 0.5% QoQ de-growth in constant currency terms was primarily driven by weakness in international markets, while an additional 2.8% decline was due to the ramp-down of the BSNL deal.
- The BSNL deal in India unlocked new capabilities that TCS aims to leverage and monetize in other markets.
- The company secured deals across various regions, covering key use cases in retail, manufacturing, insurance, utilities, and healthcare.
- FY26 international revenue to be better than FY25. International business saw deep growth decline this quarter, accounting for 50% of overall decline in deep growth.
- New service lines such as cybersecurity, engineering, and other modernization services delivered strong growth, with a healthy pipeline across these areas. All service lines are undergoing transformation driven by AI.
- Other income for the quarter includes a one-off gain from interest on income tax refunds.
- Book to Bill Ratio currently at 1.3x, but revenue conversion remains challenging. Revenue conversion not impacted by productivity demands as these are typically negotiated at deal signing.
- Client decision-making deteriorated towards the end of the quarter. No improvement seen yet in client decision-making despite trade deal announcements with China, UK, etc.
- >114,000 employees have been trained in advanced AI skills, positioning it as a key strategic advantage for the future.
- New BSNL contract expected to ramp up from next quarter. Revenue mix may be slightly impacted as second phase delivery begins.

- Deal pipeline remains strong across multiple industry verticals. Quarter saw project delays and pauses, with uncertainty about September quarter impact.

- Ongoing uncertainty from trade deals and tariff announcements

- TCS has begun developing its own Agentic AI solutions, with initial anchor customers already onboard and expected to grow further. Additionally, there are significant opportunities to enhance BPS through AI integration. Importantly, the company has stated that its hiring plans will remain unaffected despite the ongoing expansion of AI capabilities.

- Employee costs at 47.6% of revenue. Target to bring employee cost ratio down to 45% range over next 2-3 quarters

- 70% decline in third-party expenses. Direct costs haven't declined proportionally despite expectations.

- Added people in Q1 in anticipation of demand that didn't materialize as planned. Attrition trending upwards of 13%.

- North America and Europe showing minor growth, but overall demand environment challenging

- Customers are increasingly looking to leverage AI for industry-specific solutions, legacy modernization, and enterprise-wide scaling to maximize ROI. Notable productivity gains are being observed in areas such as infrastructure and application operations.

- Deal wins up 12% on TTM basis for Financial services. Project rescoping and scope reductions occurring in some instances.

- Carrying excess capacity in anticipation of better H2 performance. Expecting materially better second half with regards to growth.

- International revenue is similar to last year on a like-to-like constant currency basis.

- Deal activity is more focused on the size and tenure of deals, with a healthy book-to-bill ratio of 1.3x.

- Margin: TCS is targeting operating leverage from Q2FY26, aiming to improve productivity, better utilize available talent, and begin delivering on the second phase of orders to enhance margins.Utilisation improvement will depend on revenue growth.Long term target margin remains in 26-28% range.

- There was a 50 bps decline in utilisation this quarter. The company is focused on optimisation and maintaining readiness without leaving demand unaddressed.

- The 70 bps decline is viewed positively, considering the third-party impact. This includes not just hiring but also additional operating costs.

- The Hi-Tech business is showing stable growth.

- BSNL deal is not included in TCV. It is expected to support operating leverage once the CEO is in place. The company expects 100% delivery and a similar growth trajectory thereafter.

- Margins:Q1 saw additional costs added in anticipation of servicing future demand. However, Utilization declined this quarter due to capacity additions amid demand contraction. Positioned to benefit from operating leverage when demand recovers.

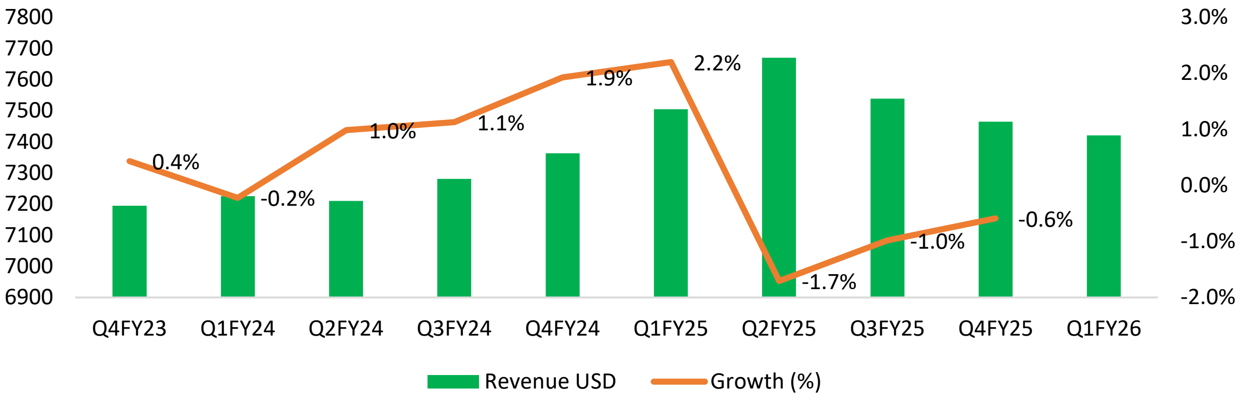
- Client Metrics:A particular client, which previously contributed over $100 mn in annual revenue, has now dropped below that threshold around $95 mn over the last 12 months.

- No acquisitions have been announced, but the company remains open to M&A opportunities in AI and digital domains if they offer value addition.

- AI is currently boosting client productivity by 10–15%, with potential for greater improvements as adoption and implementation continue to evolve.

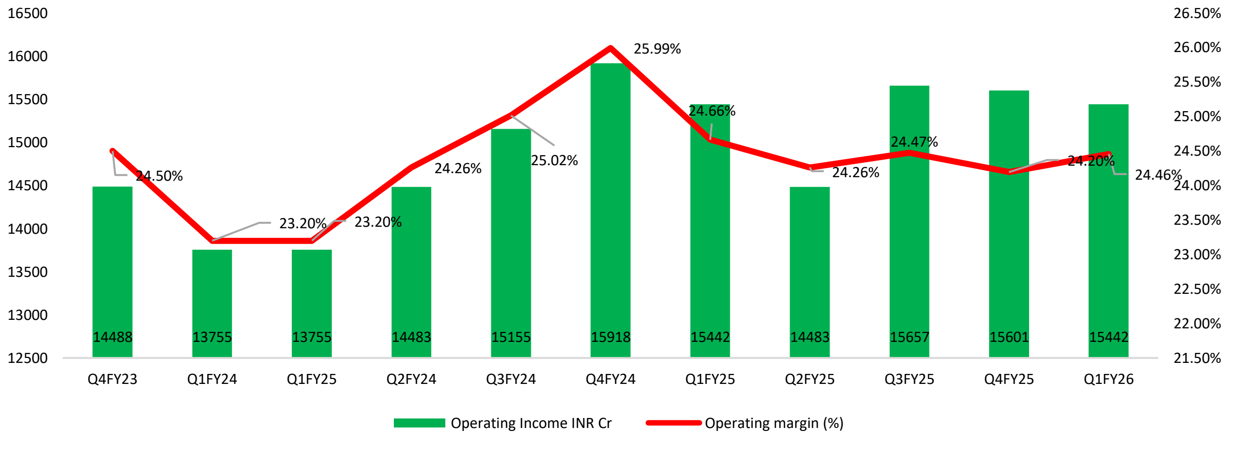
- TCS BaNCS and other platforms are maintaining strong momentum, with several successful go-lives and expansions across the BFSI and pensions sectors.

Exhibit 3: Steady growth led by Macro uncertainty



Source: Arihant Research, Company Filings

Exhibit 4: Steady margin



Source: Arihant Research, Company Filings

Exhibit 5: Trend of Net margin sequentially

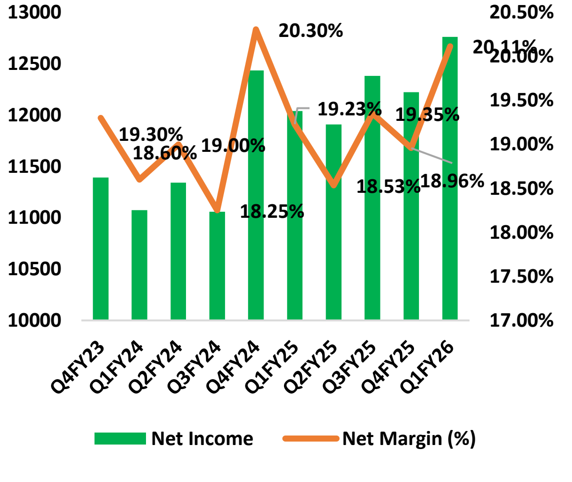
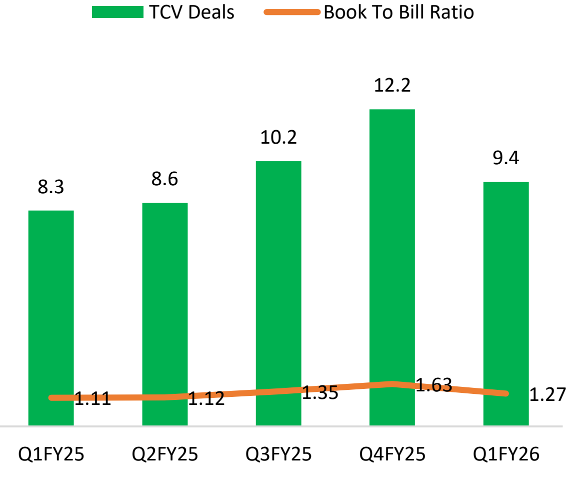


Exhibit 6: Decent TCV deal wins



Source: Arihant Research, Company Filings

Exhibit 7: Operating Metrics

Revenue Distribution by Industry Domain	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
BFSI	30.90%	30.90%	30.50%	31.2%	32.0%
Consumer Business	15.40%	15.40%	15.30%	15.3%	15.6%
Communication & Media	6.20%	6.20%	5.80%	5.8%	5.8%
Manufacturing	8.80%	8.80%	8.40%	8.4%	8.7%
Life Science & Healthcare	11.00%	11.00%	10.10%	10.1%	10.2%
Energy & Utilities	5.60%	5.60%	5.60%	5.7%	5.9%
Technology & Services	8.10%	8.10%	8.00%	8.1%	8.4%
Regional Markets & Others	14.00%	14.00%	16.30%	15.4%	13.4%
Total	**100.00%**	**100.00%**	**100.00%**	**100.0%**	**100.0%**
Currency Mix (% of Revenue)	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**
USD	51.50%	49.3%	49.43%	49.70%	49.70%
GBP	14.63%	14.9%	14.43%	14.70%	14.70%
EUR	11.02%	11.2%	10.64%	10.97%	10.97%
OTHERS	22.85%	24.7%	25.50%	24.63%	24.63%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Average Realized Rates in INR	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**
USD	83.43	83.78	84.85	86.37	86.37
GBP	105.43	110.23	107.72	109.68	109.68
EUR	89.71	92.41	89.62	91.46	91.46
Clients Contribution - New Classification	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**
USD 1 mn clients *	1310	1307	1309	1332	1336
USD 5 mn clients *	697	710	722	723	714
USD 10 mn clients *	486	491	497	493	495
USD 20 mn clients *	300	298	294	298	300
USD 50 mn clients *	140	136	134	130	131
USD 100 mn clients *	63	66	64	64	62
* Last Twelve Months' services revenues; includes clients in India					
TCS EMPLOYEE METRICS	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**
Total Headcount	606,998	612,724	607,354	607,979	613,069
Number of Nationalities of associates					
% of Women associates	35.50%	35.50%	35.30%	35.20%	35.10%
Revenue Distribution by Geography - New Classification	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**
Americas	51.4%	49.4%	49.6%	50.0%	50.6%
North America	49.5%	47.6%	47.7%	48.2%	48.7%
Latin America *	1.9%	1.8%	1.9%	1.8%	1.9%
Europe	31.3%	31.6%	30.5%	31.1%	33.0%
UK	16.9%	17.0%	16.6%	16.8%	18.0%
Continental Europe	14.4%	14.6%	13.9%	14.3%	15.0%
India	7.5%	8.9%	7.8%	8.4%	5.8%
Asia Pacific	7.8%	8.0%	9.8%	8.1%	8.4%
MEA	2.0%	2.1%	2.3%	2.4%	2.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
LTM Attrition	**Q1FY25**	**Q2FY25**	**Q3FY25**	**Q4FY25**	**Q1FY26**
Attrition : IT Services	12.1%	12.3%	13.0%	13.3%	13.8%

Source: Arihant Research, Company Filings

Key Financials

Income Statement (INR Cr)					
Year End-March	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Revenues (US$ mn)	29,080	30,179	31,425	33,677	35,490
Change (%)	4.1%	3.8%	4.1%	7.2%	5.4%
Revenues	2,40,893	2,55,324	2,66,937	2,82,677	2,99,449
Change (%)	6.8%	6.0%	4.5%	5.9%	5.9%
Employee costs	1,40,131	1,45,788	1,50,819	1,59,712	1,69,189
Operation and other expenses	**1,76,597**	**1,87,917**	**1,94,811**	**2,06,213**	**2,18,448**
Total Operating Expenses	3,16,728	3,33,705	3,45,630	3,65,925	3,87,636
Depreciation	4,985	5,242	5,660	5,635	5,625
EBIT	**59311**	**62165**	**66466**	**70829**	**75376**
EBIT Margin (%)	**24.6%**	**24.3%**	**24.9%**	**25.1%**	**25.2%**
Interest	778	796	797	798	798
Other Income	4,422	3,962	5,151	6,696	8,705
PBT	**62,955**	**65,331**	**70,820**	**76,727**	**83,282**
Exceptional Items	958.00	-	-	-	-
PBT after exceptional Items	**61,997**	**65,331**	**70,820**	**76,727**	**83,282**
Tax	15,898	16,534	17,988	19,489	21,154
Rate (%)	*25.3%*	*25.3%*	*25.4%*	*25.4%*	*25.4%*
PAT	**46,099**	**48,797**	**52,832**	**57,238**	**62,129**
Non-controlling interest	**-191**	**-244**	**-244**	**-244**	**-244**
Consolidated PAT	**45,908**	**48,553**	**52,588**	**56,994**	**61,885**
PAT Margin (%)	*19.1%*	*19.1%*	*19.8%*	*20.2%*	*20.7%*

Balance Sheet (INR Cr)					
Year End-March	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Sources of Funds					
Share Capital	362	362	362	362	362
Reserves & Surplus	90,127	94,394	96,302	97,186	1,02,961
Non controlling interest	830	1,015	1,015	1,015.00	1,015.00
Total Equity	**91,319**	**95,771**	**97,679**	**98,563**	**1,04,338**
Defered Tax Liability (Net)	977	980	980	980	980
Capital Employed	**1,00,345**	**1,06,628**	**1,08,260**	**1,09,168**	**1,14,968**
Application of Funds					
Gross Block	35,969	42,909	48,167	54,857	62,475
Less: Depreciation	26,593	31,931	37,875	44,611	52,248
Net Block	9,376	10,978	10,292	10,246	10,227
CWIP	1,564	1,546	1,546	1,546	1,546
Financial Assets	12,016	11,744	10,401	10,541	10,691
Investments	281	275	288	304	323
Inventories	**28**	**21**	**30**	**32**	**33**
Sundry debtors	**53,577**	**59,046**	**64,467**	**66,758**	**71,540**
Cash and bank	13,286	15,463	9,198	14,957	12,751
Other Current Assets	14,612	17,792	19,187	20,844	22,713
Total Current assets	1,12,984	1,23,011	1,24,966	1,36,567	1,43,029
Total Current liabilities	46,104	53,001	51,033	53,792	53,711
Net Current assets	**66,880**	**70,010**	**73,933**	**82,775**	**89,318**
Capital Employed	**1,00,345**	**1,06,628**	**1,08,260**	**1,09,168**	**1,14,968**

Source: Arihant Research, Company filings

Key Financials

Cash Flow Statement (INR Cr)					
Year End-March	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Profit for the Year	46,099	48,797	52,832	57,238	62,129
Depreciation	4,985	5,242	5,660	5,635	5,625
Finance Costs	778	796	797	798	798
Operating Profit before WC Changes	**63,709**	**67,809**	**73,717**	**79,600**	**86,150**
Operating Profit after WC Changes	**56,827**	**77,201**	**76,498**	**84,028**	**90,230**
Direct Taxes Paid & Exceptional Items	-12,489	-16,534	-17,988	-19,489	-21,154
Cash Flow from Operating Activities	44,338	60,667	58,509	64,539	69,077
Cash Flow from Investing Activities	**6,026**	**-1,795**	**-14,477**	**-178**	**-12,681**
Cash Flow from Financing Activities	**-48,536**	**-49,551**	**-53,172**	**-58,603**	**-58,601**
Net Change in Cash & Cash Equivalents	1,828	9,321	-9,140	5,759	-2,206
Opening Cash & Cash Equivalents	7,123	9,016	18,337	9,198	14,957
Closing Cash & Cash Equivalents	9016	18337	9198	14957	12751

Key Ratios					
Year End-March	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Per share (INR)					
EPS	125.9	134.2	145.3	157.4	171.0
BVPS	249	265	270	272	288
Valuation (x)					
P/E	25.8	24.2	22.3	20.6	19.0
P/BV	12.9	12.3	12.0	11.9	11.3
Return ratio (%)					
EBITDA Margin	26.7%	26.3%	26.7%	26.4%	27.0%
EBIT Margin	24.6%	24.3%	24.9%	25.1%	25.2%
PAT Margin	19.1%	19.1%	19.8%	20.2%	20.7%
ROE	50.3%	50.7%	53.8%	57.8%	59.3%
ROCE	48.5%	48.5%	50.8%	53.6%	53.9%
Leverage Ratio (%)					
Total D/E	0.1	0.1	0.1	0.1	0.1
Turnover Ratios					
Asset Turnover (x)	23.7	24.0	26.0	27.6	29.3
Inventory Days	5	5	5	5	5
Receivable Days	78	81	88	86	87

Source: Arihant Research, Company Filings

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800	6 Lad Colony, Y.N. Road, Indore - 452003, (M.P.) Tel: (91-731) 4217100/101 CIN: L66120MP1992PLC007182

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	**SMS: 'Arihant' to 56677**	www.arihantcapital.com	instresearch@arihantcapital.com

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800