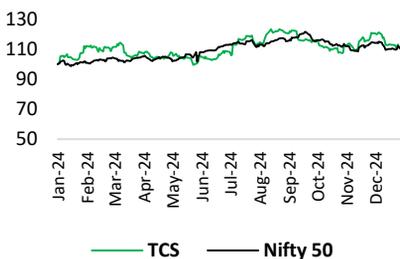


<b>CMP: INR 4,044</b>	
<b>Rating: Accumulate</b>	
<b>Target Price: INR 4,535</b>	
<b>Stock Info</b>	
BSE	532540
NSE	TCS
Bloomberg	TCS IN
Reuters	TCS.BO
Sector	IT
Face Value (INR)	1
Equity Capital (INR Cr)	362
Mkt Cap (INR Cr)	14,63,155
52w H/L (INR)	4,592/3,592
Avg Yearly Vol (in 000')	2390

<b>Shareholding Pattern %</b>	
(As on Sep, 2024)	
Promoters	71.77
FII	12.66
DII	10.85
Public & Others	4.73

<b>Stock Performance (%)</b>	<b>1m</b>	<b>3m</b>	<b>12m</b>
TCS	-9.2%	-4.9%	9.6%
NIFTY	-4.4%	-5.9%	9.2%

**TCS Vs Nifty**



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Tata Consultancy Services (TCS) reported mixed set of numbers in Q3FY25; Margin & PAT slightly above our expectation while revenue below with estimate. Strong deal wins \$10.2Bn. Constant currency (CC) revenue growth is up 4.5% YoY. USD Revenue growth +3.5% YoY/-1.71% QoQ to \$7539 mn slightly down our estimate of \$ 7,597 mn driven by across the geography. Regional market was up by 3.4% QoQ but Lifesciences declined 4.5%, followed by Manufacturing at 4% decline, BFSI declined 2.7%. Consumer was down 0.4% (in USD QoQ). Reported revenue of INR (-0.45% QoQ/5.6% YoY) to INR 63,973 Cr slightly below our estimates INR 64,138 Cr. India grew 8% QoQ, followed by MEA at 7.7%, Latin America grew 3.8%. Continental Europe declined 6.4%.US declined 1.5%. UK declined 4% (all in USD qoq).EBIT margin was up 41bps QoQ/-54 bps YoY at 24.47 % above our estimates of 24.28%.Consolidated PAT stood at INR 12,380 Cr, up by 12% YoY/3.95% QoQ above with our estimate of INR 12,178 Cr. Order book TCV at \$10.2 Bn; North America TCV at \$5.9 Bn; BFSI TCV at \$3.2 Bn, Consumer Business TCV at \$1.3 Bn. Clients \$100M+ up by 3, \$10M+ up by 17 & \$5M+ up by 29 YoY. Headcount: 607,354 reduced by 5,370 QoQ. LTM IT Services attrition rate slightly up 70 bps QoQ to 13%. The company also announced third interim dividend of INR 10 and a special dividend of INR 66 per share.

**Investment Rationale**

**Vertical recovery on cards:** The BFSI sector is witnessing a surge in AI and Generative AI adoption, driving a stronger focus on operational efficiency and IT modernization. The retail segment is showing signs of recovery, particularly in essentials, fashion, and apparel. In manufacturing, a bottoming out is anticipated in Q4, with subsequent growth revival. Life Sciences & Healthcare are currently awaiting policy clarity in the US before discretionary spending returns. Meanwhile, the Technology & High-Tech sector has a positive outlook, with clients planning to increase their spending in the near future.

**BSNL Impact:** The BSNL deal is expected to taper off starting from Q4 and is anticipated to conclude by Q2FY26. However, the company is confident of making up for the shortfall, as the demand environment is gradually improving. The company is actively exploring opportunities to replace this revenue both domestically and internationally.

**Recent acquisition:** TCS will acquire TRIL Bengaluru Real Estate Five Ltd and TRIL Bengaluru Real Estate Six Ltd from Tata Realty, gaining land for delivery centers in Bengaluru. The acquisition, valued at INR 16,250 mn, is expected to complete within a year.

**Outlook & Valuation:** The company reported steady performance in Q3FY25, with improved margins, strong deal wins, and a cautiously optimistic outlook going forward for FY25, anticipating it to outperform FY24, driven by global business growth. Discretionary spending is expected to continue expanding, supported by strong client discussions and pipeline indicators. Revenue from BSNL is projected to taper off starting in Q4 FY25 and into FY26, with strategies in place to offset this by leveraging BSNL expertise for new global engagements. Both regional and core markets are expected to play a key role in driving growth. Additionally, there is a consistent focus on integrating AI and Generative AI across all service offerings. We expect our growth estimates for FY24-FY27E 6.6% in USD terms and a margin of 24.8%/25.3%/25.5% for FY25E/FY26E/FY27E. We value TCS at a PE of 26x its FY27E EPS of INR 174, resulting in a revised target price of INR 4,535 per share (Earlier TP;4,839 per share).We maintain our rating to an Accumulate on the stock.

**Exhibit 1: Q3FY25 - Performance (Consolidated)**

Particulars (INR Cr)	FY24	FY25E	FY26E	FY27E
Revenues (US\$ mn)	29,080	31,026	33,341	35,214
Net Sales	2,40,893	2,57,405	2,82,014	3,01,811
EBIT	59,311	63,788	71,226	77,053
EBIT Margin	24.62%	24.78%	25.26%	25.53%
Net profit	45,908	50,633	57,320	63,146
EPS ( INR)	129	140	158	174
ROE	50.27%	53.36%	56.45%	58.16%
ROCE	48.19%	50.15%	52.33%	52.95%
PE (x)	31.38	28.91	25.54	23.18

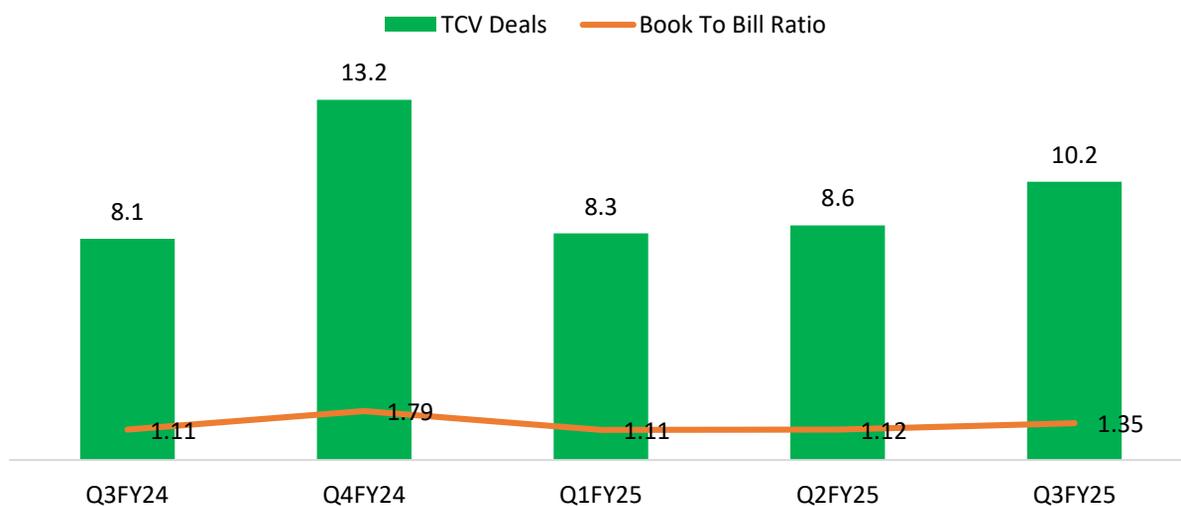
Source: Arihant Research, Company Filings

Exhibit 2: Q3FY25 - Quarterly Performance (Consolidated)

Consolidated Income Statement (INR Cr)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y
<b>Revenue (Mn USD)</b>	7,539	7,670	7,281	-1.71%	3.5%
<b>Net Revenue</b>	63,973	64,259	60,583	-0.45%	5.6%
Employee Costs	35,956	36,654	34,722	-1.90%	3.6%
Other Operating Expenses	10,983	10,874	9,473	1.00%	15.9%
Depreciation	1,377	1,266	1,233	8.77%	11.7%
<b>EBIT</b>	15,657	15,465	15,155	1.24%	3.3%
<b>EBIT margin %</b>	24.47%	24.07%	25.02%	41bps	-54bps
Other Income	1,243	729	862	70.51%	44.2%
Finance Costs	234	162	230	44.44%	1.7%
Exceptional Items	-	-	958		
<b>PBT</b>	16,666	16,032	14,829	3.95%	12.4%
Tax Expense	4,222	4,077	3,732	3.56%	13.1%
Effective Tax Rate %	25.3%	25.4%	25.2%	-10bps	17bps
<b>Reported PAT</b>	12,444	11,955	11,097	4.09%	12.1%
MI & Associates	-64	-46	-39	39.13%	64.1%
<b>Consolidated PAT</b>	12,380	11,909	11,058	3.95%	12.0%
<b>PAT Margin %</b>	19.4%	18.5%	18.3%	82bps	110bps
<b>EPS (INR)</b>	34.2	32.9	30.3	3.92%	12.9%

Source: Arianth Research, Company Filings

Exhibit 3: Strong deal wins



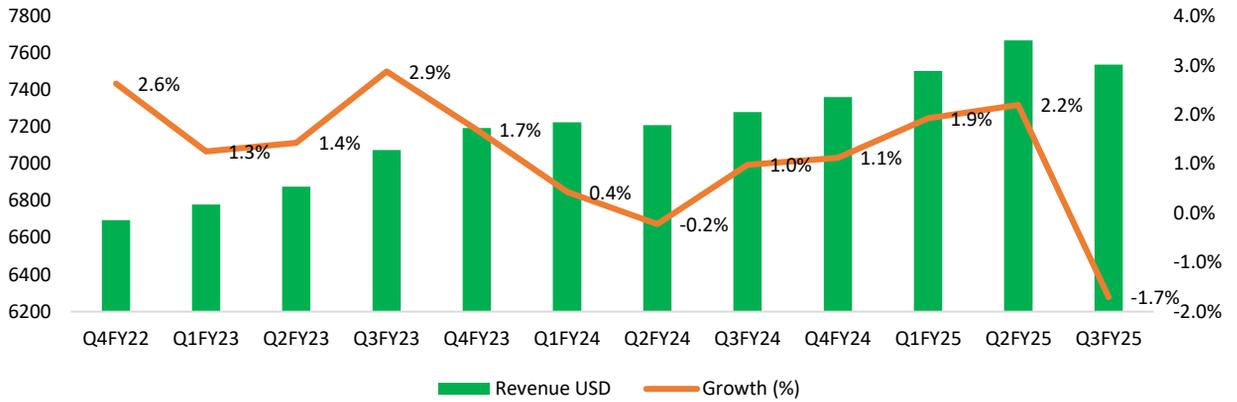
Source: Arianth Research, Company Filings

**Q3FY25 Conference Call Highlights**

**Discretionary demand is expected to improve with reduced interest rates, easing inflation, and post-US election stability, boosting confidence in CY25 and CY26 growth, supported by early revival in discretionary spending and strong TCV wins, while clients continue to prioritize cost optimization and business transformation.**

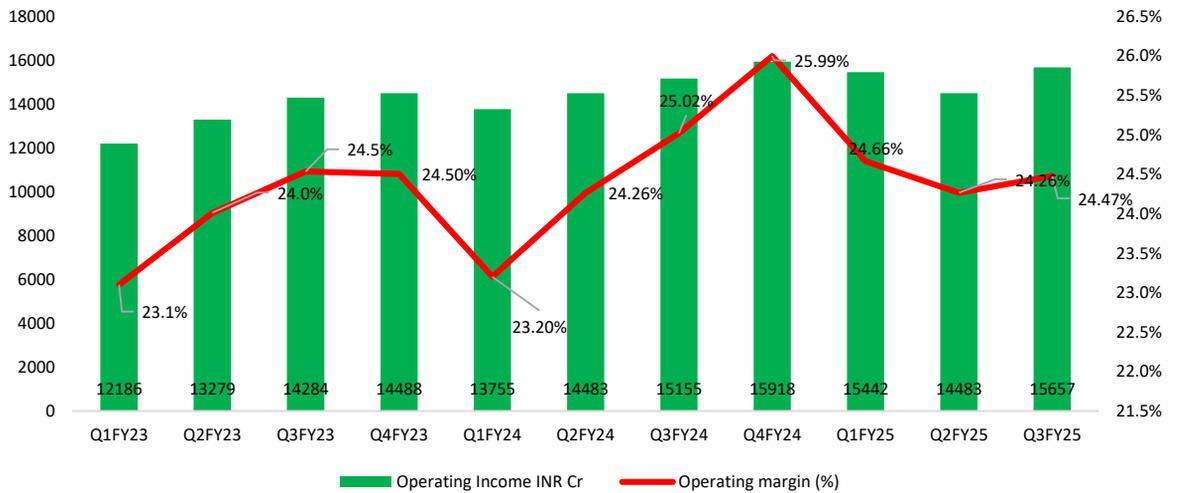
- Maintain margin guidance within the range of 26-28%.
- The company's dependence on H1-B visas remains minimal.
- The company saw strong TCV of \$10.2 bn in Q3, with growth across markets and industries, indicating improved deal momentum.
- Management expressed cautious optimism for CY25, citing early signs of revival in discretionary spending and improved deal cycles, though macroeconomic uncertainties remain.
- BSNL deal should taper off from Q4 and it should end by Q2FY26. Confident of making up for shortfall as demand environment is getting incrementally better
- TCS is seeing increased adoption of AI and Gen AI across industries, particularly in BFSI, and expects AI to be net positive for demand, though it's too early to predict significant changes in pricing models.
- Margins improves despite furloughs amid operating efficiency, productivity improvement, utilization and pyramid
- Campus hiring is progressing as planned, with preparations underway to onboard a higher number of campus hires next year.
- Retail sector is showing signs of recovery, particularly in essentials, fashion, and apparel sub-segments.
- TCS is focusing on infusing AI into various projects and service offerings to improve productivity and future-proof client technology infrastructure.
- The company expects client IT budgets to remain similar in FY25 with a positive bias, despite ongoing macroeconomic uncertainties.
- Deal cycles have shortened compared to previous quarters, indicating improved decision-making by clients. TCS observed a reduction in deal cycles by a few weeks for deals over \$20 mn, suggesting improved decision-making by clients. Europe had one of the best quarters in terms of deal wins.
- Current TCV does not include any BSNL contribution
- Growth markets outperformed while major markets like North America and Europe saw declines. Among verticals, Regional Markets, Energy Resources and Utilities, and Consumer Business showed growth, while others experienced declines or minimal growth.
- The company sees early signs of revival in discretionary spending in BFSI, retail, manufacturing, and life sciences verticals. Remains positive on the high-tech industry, particularly semiconductor players and hyperscalers. Healthcare is expected to start seeing growth in the medium term. Retail showed improvement across major markets.
- The company is working on few mega deals
- Ex-BSNL regional markets have been doing well.
- Manufacturing will bottom out in Q4 and subsequently grow
- There is a positive outlook on the overall high-tech industry, particularly with semiconductors and hyperscalers planning to increase their spending in the coming year.
- There is a positive outlook on the overall high-tech industry, particularly with semiconductors and hyperscalers planning to increase their spending in the coming year.
- The life sciences vertical is expected to take time before achieving greater clarity on its trajectory.
- Added 11,000 employees in H1FY25 and are on track to achieve 40,000 campus hires for FY25E, with plans to exceed 40,000 campus hires in FY26E; completed 25,000 promotions this quarter and aim for 110,000 promotions in FY25E.

**Exhibit 3: Strong growth and above expectation**



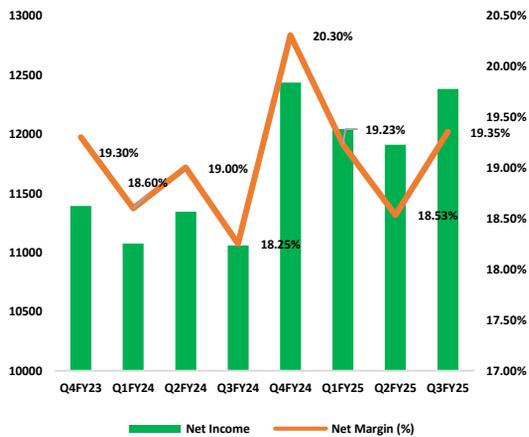
Source: Arianth Research, Company Filings

**Exhibit 4: Margin expansion driven by cost optimization and reduced discretionary expenses.**

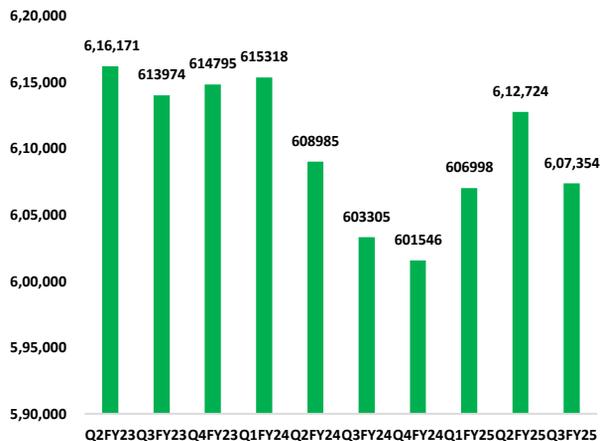


Source: Arianth Research, Company Filings

**Exhibit 5: Trend of Net margin sequentially**



**Exhibit 6: Total Employee Base has decreased by 5,370 QoQoQoQ**



Source: Arianth Research, Company Filings

**Exhibit 7: Operating Metrics**

Revenue Distribution by Industry Domain	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
BFSI	31.70%	31.30%	30.90%	30.90%	30.50%
Consumer Business	15.70%	15.70%	15.40%	15.40%	15.30%
Communication & Media	10.90%	6.60%	6.20%	6.20%	5.80%
Manufacturing	8.70%	8.80%	8.80%	8.80%	8.40%
Life Science & Healthcare	8.40%	10.90%	11.00%	11.00%	10.10%
Energy & Utilities	6.70%	5.60%	5.60%	5.60%	5.60%
Technology & Services	5.70%	8.20%	8.10%	8.10%	8.00%
Regional Markets & Others	12.20%	12.90%	14.00%	14.00%	16.30%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Currency Mix ( % of Revenue )	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
USD	52.91%	51.94%	51.50%	49.3%	49.43%
GBP	14.35%	14.67%	14.63%	14.9%	14.43%
EUR	11.14%	11.18%	11.02%	11.2%	10.64%
OTHERS	21.60%	22.21%	22.85%	24.7%	25.50%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Average Realized Rates in INR	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
USD	83.21	83.16	83.43	83.78	84.85
GBP	104.24	105.13	105.43	110.23	107.72
EUR	90.06	90.07	89.71	92.41	89.62
Clients Contribution - New Classification	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
USD 1 mn clients *	1288	1294	1310	1307	1309
USD 5 mn clients *	693	693	697	710	722
USD 10 mn clients *	480	487	486	491	497
USD 20 mn clients *	299	301	300	298	294
USD 50 mn clients *	137	139	140	136	134
USD 100 mn clients *	61	62	63	66	64
* Last Twelve Months' services revenues; includes clients in India					
TCS EMPLOYEE METRICS	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
<b>Total Headcount</b>	6,03,305	6,01,546	6,06,998	6,12,724	6,07,354
<b>Number of Nationalities of associates</b>					
<b>% of Women associates</b>	35.70%	35.60%	35.50%	35.50%	35.30%
Revenue Distribution by Geography - New Classification	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Americas	52.7%	52.0%	51.4%	49.4%	49.6%
North America	50.6%	50.0%	49.5%	47.6%	47.7%
Latin America *	2.1%	2.0%	1.9%	1.8%	1.9%
Europe	31.4%	31.4%	31.3%	31.6%	30.5%
UK	16.4%	16.8%	16.9%	17.0%	16.6%
Continental Europe	15.0%	14.6%	14.4%	14.6%	13.9%
India	6.1%	6.7%	7.5%	8.9%	7.8%
Asia Pacific	7.8%	7.8%	7.8%	8.0%	9.8%
MEA	2.0%	2.1%	2.0%	2.1%	2.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
LTM Attrition	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Attrition : IT Services	13.3%	12.5%	12.1%	12.3%	13.0%

Source: Arianth Research, Company Filings

## Key Financials

Income Statement (INR Cr)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
<b>Revenues (US\$ mn)</b>	27,927	29,080	31,026	33,341	35,214
<i>Change (%)</i>	8.6%	4.1%	6.7%	7.5%	5.6%
<b>Revenues</b>	2,25,458	2,40,893	2,57,405	2,82,014	3,01,811
<i>Change (%)</i>	17.6%	6.8%	6.9%	9.6%	7.0%
Employee costs	1,27,522	1,40,131	1,45,177	1,59,338	1,70,523
<b>Operation and other expenses</b>	<b>1,66,199</b>	<b>1,76,597</b>	<b>1,88,549</b>	<b>2,05,814</b>	<b>2,20,171</b>
Total Operating Expenses	2,93,721	3,16,728	3,33,726	3,65,151	3,90,694
Depreciation	5,022	4,985	5,068	4,974	4,587
<b>EBIT</b>	<b>54237</b>	<b>59311</b>	<b>63788</b>	<b>71226</b>	<b>77053</b>
<b>EBIT Margin (%)</b>	<b>24.1%</b>	<b>24.6%</b>	<b>24.8%</b>	<b>25.3%</b>	<b>25.5%</b>
Interest	779	778	779	780	780
Other Income	3,449	4,422	5,085	6,611	8,594
<b>PBT</b>	<b>56,907</b>	<b>62,955</b>	<b>68,094</b>	<b>77,057</b>	<b>84,867</b>
Exceptional Items	-	958.00	-	-	-
<b>PBT after exceptional Items</b>	<b>56,907</b>	<b>61,997</b>	<b>68,094</b>	<b>77,057</b>	<b>84,867</b>
Tax	14,604	15,898	17,296	19,573	21,556
<i>Rate (%)</i>	25.0%	25.8%	25.4%	25.4%	25.4%
<b>PAT</b>	<b>42,303</b>	<b>46,099</b>	<b>50,798</b>	<b>57,485</b>	<b>63,311</b>
<b>Non-controlling interest</b>	<b>-156</b>	<b>-191</b>	<b>-165</b>	<b>-165</b>	<b>-165</b>
<b>Consolidated PAT</b>	<b>42,147</b>	<b>45,908</b>	<b>50,633</b>	<b>57,320</b>	<b>63,146</b>
<i>PAT Margin (%)</i>	18.8%	19.1%	19.7%	20.4%	21.0%

Balance Sheet (INR Cr)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
<b>Sources of Funds</b>					
Share Capital	366	362	362	362	362
Reserves & Surplus	90,058	90,127	93,700	1,00,340	1,07,376
Non controlling interest	782	830	830	830	830.00
<b>Total Equity</b>	<b>91,206</b>	<b>91,319</b>	<b>94,892</b>	<b>1,01,532</b>	<b>1,08,568</b>
Deferred Tax Liability (Net)	792	977	977	977	977
<b>Capital Employed</b>	<b>1,00,093</b>	<b>1,00,345</b>	<b>1,03,944</b>	<b>1,10,621</b>	<b>1,17,686</b>
<b>Application of Funds</b>					
Gross Block	32,344	35,969	40,671	45,654	51,249
Less: Depreciation	22,114	26,593	31,621	37,224	43,475
Net Block	10,230	9,376	9,050	8,430	7,774
CWIP	1,234	1,564	1,564	1,564	1,564
Financial Assets	11,366	12,016	10,705	10,924	11,100
Investments	266	281	300	329	352
<b>Inventories</b>	<b>28</b>	<b>28</b>	<b>26</b>	<b>29</b>	<b>31</b>
<b>Sundry debtors</b>	<b>49,954</b>	<b>53,577</b>	<b>55,007</b>	<b>60,266</b>	<b>64,497</b>
Cash and bank	11,032	13,286	14,334	11,564	23,551
Other Current Assets	12,359	14,612	17,544	19,914	21,700
Total Current assets	1,10,270	1,12,984	1,20,551	1,28,628	1,49,220
Total Current liabilities	43,558	46,104	48,974	49,988	52,423
Net Current assets	<b>66,712</b>	<b>66,880</b>	<b>71,577</b>	<b>78,640</b>	<b>96,797</b>
<b>Capital Employed</b>	<b>1,00,093</b>	<b>1,00,345</b>	<b>1,03,944</b>	<b>1,10,621</b>	<b>1,17,686</b>

Source: Arianth Research, Company filings

## Key Financials

## Cash Flow Statement (INR Cr)

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit for the Year	42,303	46,099	50,798	57,485	63,311
Depreciation	5,022	4,985	5,068	4,974	4,587
Finance Costs	779	778	779	780	780
<b>Operating Profit before WC Changes</b>	<b>59,148</b>	<b>63,709</b>	<b>70,381</b>	<b>79,251</b>	<b>86,674</b>
Operating Profit after WC Changes	54,931	56,827	73,943	84,846	92,716
Direct Taxes Paid & Exceptional Items	-12,966	-12,489	-17,296	-19,573	-21,556
<b>Cash Flow from Operating Activities</b>	<b>41,965</b>	<b>44,338</b>	<b>56,647</b>	<b>65,274</b>	<b>71,159</b>
<b>Cash Flow from Investing Activities</b>	<b>39</b>	<b>6,026</b>	<b>-1,795</b>	<b>-14,889</b>	<b>-587</b>
<b>Cash Flow from Financing Activities</b>	<b>-47,878</b>	<b>-48,536</b>	<b>-49,534</b>	<b>-53,155</b>	<b>-58,585</b>
Net Change in Cash & Cash Equivalents	-5,874	1,828	5,318	-2,770	11,987
Opening Cash & Cash Equivalents	12,488	7,123	9,016	14,334	11,564
Closing Cash & Cash Equivalents	7,123	9016	14334	11564	23551

## Key Ratios

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (INR)</b>					
EPS	115.2	128.9	139.9	158.3	174.4
BVPS	245	249	262	280	300
<b>Valuation (x)</b>					
P/E	35.1	31.4	28.9	25.5	23.2
P/BV	16.2	16.0	15.4	14.4	13.5
<b>Return ratio (%)</b>					
EBITDA Margin	26.3%	26.7%	26.3%	26.7%	26.8%
EBIT Margin	24.1%	24.6%	24.8%	25.3%	25.5%
PAT Margin	18.8%	19.1%	19.7%	20.4%	21.0%
ROE	46.2%	50.3%	53.4%	56.5%	58.2%
ROCE	44.6%	48.2%	50.1%	52.3%	52.9%
<b>Leverage Ratio (%)</b>					
Total D/E	0.1	0.1	0.1	0.1	0.1
<b>Turnover Ratios</b>					
Asset Turnover (x)	23.0	26.1	29.5	34.8	38.8
Inventory Days	5	5	5	5	5
Receivable Days	74	78	78	78	78

Source: Arian Research, Company Filings

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
Registration No.**

INH000002764

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