

CMP: INR 3,247

Rating: Accumulate

Target Price: INR 3,758

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)	11,74,648
52w H/L (INR)	4,592/3,056
Avg Yearly Vol (in 000')	2430

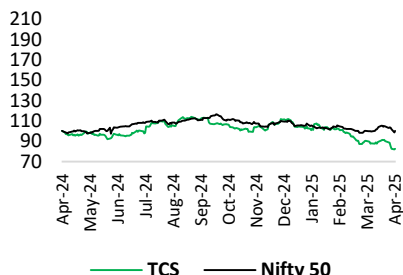
Shareholding Pattern %

(As on Dec, 2024)

Promoters	71.77
FII	12.68
DII	10.86
Public & Others	4.63

Stock Performance (%)	1m	3m	12m
TCS	-8.8%	-24.0%	-18.5%
NIFTY	1.5%	-1.0%	1.4%

TCS Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114837

Tata Consultancy Services (TCS) reported strong deal wins; Nos slightly below estimates. Constant currency (CC) revenue growth is up 4.2% YoY (FY25) and 2.5% YoY in Q4FY25. USD Revenue growth +1.4% YoY/-0.98% QoQ to \$7465 mn slightly down our estimate of \$ 7,480 mn driven by across the geography. Regional market was up by 22.5% YoY but Lifesciences declined 5.6%, followed by Manufacturing at 2.9% decline. BFSI up 2.5% (Decent). Consumer was flat(in USD YoY).Reported revenue of INR (+0.79% QoQ/+5.3% YoY) to INR 64,479 Cr slightly below our estimates INR 64,823 Cr. India grew 33% YoY, followed by MEA at 13.2%, Latin America grew 4.3%. Continental Europe up by 1.4%.US declined 1.9%.* UK up 1.2% (all in USD YoY) (Decent growth). EBIT margin was decline 28bps QoQ/-180 bps YoY at 24.20 % slightly below our estimates of 24.51%(Overall good). Consolidated PAT stood at INR 12,224 Cr, down by 1.7% YoY/ down 1.26% QoQ slightly below with our estimate of INR 12,530 Cr. Clients \$100M+ up by 2 ; \$10M+ up by 6 & \$1M+ up by 38 YoY. Strong Order book TCV at \$12.2 Bn; North America TCV at \$6.8 Bn; BFSI TCV at \$4.0 Bn, Consumer Business TCV at \$1.7 Bn (\$39.48n in FY25). Headcount: 607,979 against 607,354 increased by 625 QoQ (positive). LTM IT Services attrition rate slightly increased 13.3% against 13%.The company also announced final dividend of INR 30 per share.

Investment Rationale

Decline in margin due to Promotions: Margin pressures were largely driven by promotions and strategic investments, partly cushioned by better operating leverage and currency gains. For the year, wage hikes and capability investments weighed on margins, though productivity and utilization efforts offered partial relief. Company remains optimistic about reaching closer to 26% margins in the medium term, contingent on a return to broad-based growth in FY26. Overall, the margin outlook is stable but hinges on demand recovery and operational efficiency.

Deal Closures Improve, Cycles Shorten: An improvement in deal closures during H2FY25, leading to a higher TCV compared to earlier quarters. The company also observed a trend of shorter deal cycles, indicating quicker decision-making from clients, although the actual tenure of deals remains unchanged. This acceleration in closures supports stronger near-term visibility. Continues to use its deal pipeline as a key input for forecasting performance and planning resource allocation, suggesting improved agility in responding to market demand.

Strong AI Momentum and Industry-Specific Adoption: Company is witnessing strong momentum in AI and gen AI adoption, with over 1/3rd of client engagements now incorporating AI to improve outcomes and efficiency. Focus areas include IT operations, business process transformation, and applications like contracts, content, customer support, and data insights. The AI deal pipeline is expanding, with increased client maturity and production-scale deployments. TCS is prioritizing industry-specific AI solutions and has undertaken projects like an AI factory for a European energy firm, a vegetation inspection model for a utility, and a GenAI supply chain tool for a biopharma client. It secured 9 leadership positions in FY25 analyst AI capability rankings.

Outlook & Valuation: The company reported steady performance in Q4FY25, with strong deal wins. FY26 is expected to outperform FY25, driven by strong TCV over the last two quarters. The BSNL deal is still ongoing and is expected to conclude in Q1FY26. The company is aiming for an operating margin of 26% in the medium term. However, it has experienced some uncertainty and delays in decision-making over the past 4-5 weeks due to macroeconomic factors. Both regional and core markets are expected to play a key role in driving growth. Additionally, TCS is prioritizing industry-specific AI solutions and has undertaken projects such as an AI factory for a European energy firm, a vegetation inspection model for a utility, and a GenAI supply chain tool for a biopharma client. It secured nine leadership positions in FY25 analyst AI capability rankings.

Our growth estimates for FY26-FY27E 5% in USD terms and a margin of 24.7%/24.9% for FY26E/FY27E. We value TCS at a PE of 24x its FY27E EPS of INR 157, resulting in a revised target price of INR 3,758 per share (Earlier TP:4,535 per share).We maintain our rating to an Accumulate on the stock.

Exhibit 1: Q4FY25 - Performance (Consolidated)

Particulars (INR Cr)	FY24	FY25	FY26E	FY27E
Revenues (US\$ mn)	29,080	30,179	31,523	33,294
Net Sales	240,893	255,324	266,937	282,677
EBIT	59,311	62,165	66,054	70,419
EBIT Margin	24.62%	24.35%	24.75%	24.91%
Net profit	45,908	48,553	52,280	56,689
EPS (INR)	126	134	144	157
ROE	50.27%	50.70%	53.69%	57.88%
ROCE	48.55%	48.48%	50.61%	53.63%
PE (x)	25.79	24.19	22.48	20.73

Source: Arihant Research, Company Filings

Exhibit 2: Q4FY25 - Quarterly Performance (Consolidated)

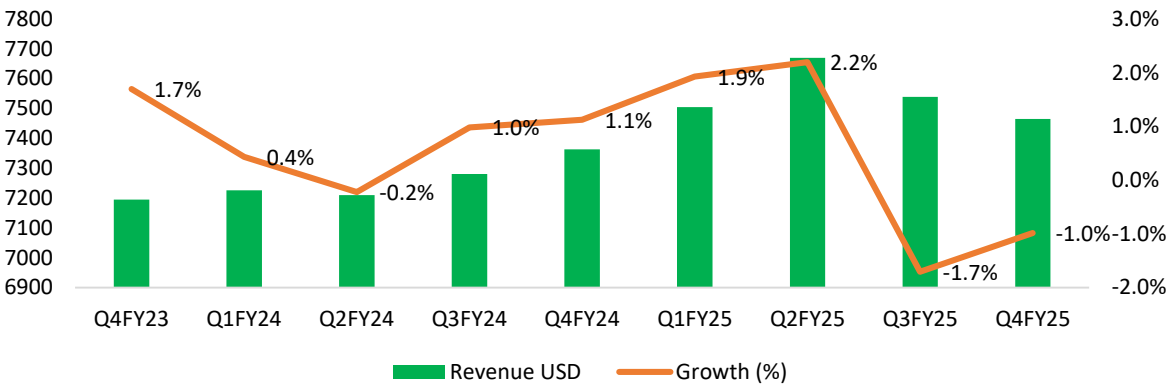
Consolidated Income Statement (INR Cr)	Q4FY25	Q3FY25	Q4FY24	Q-o-Q	Y-o-Y
Revenue (Mn USD)	7,465	7,539	7,363	-0.98%	1.4%
Net Revenue	64,479	63,973	61,237	0.79%	5.3%
Employee Costs	36,762	35,956	35,138	2.24%	4.6%
Other Operating Expenses	10,737	10,983	8,935	-2.24%	20.2%
Depreciation	1,379	1,377	1,246	0.15%	10.7%
EBIT	15,601	15,657	15,918	-0.36%	-2.0%
EBIT margin %	24.20%	24.47%	25.99%	-28bps	-180bps
Other Income	1,028	1,243	1,157	-17.30%	-11.1%
Finance Costs	227	234	226	-2.99%	0.4%
Exceptional Items	-	-	-		
PBT	16,402	16,666	16,849	-1.58%	-2.7%
Tax Expense	4,109	4,222	4,347	-2.68%	-5.5%
Effective Tax Rate %	25.1%	25.3%	25.8%	-1.11%	-2.9%
Reported PAT	12,293	12,444	12,502	-1.21%	-1.7%
MI & Associates	-69	-64	-68	7.81%	1.5%
Consolidated PAT	12,224	12,380	12,434	-1.26%	-1.7%
PAT Margin %	19.0%	19.4%	20.3%	-39bps	-135bps
EPS (INR)	33.8	34.2	34.7	-1.23%	-2.6%

Source: Arianth Research, Company Filings

TCS – Q4FY25 Concall KTAs

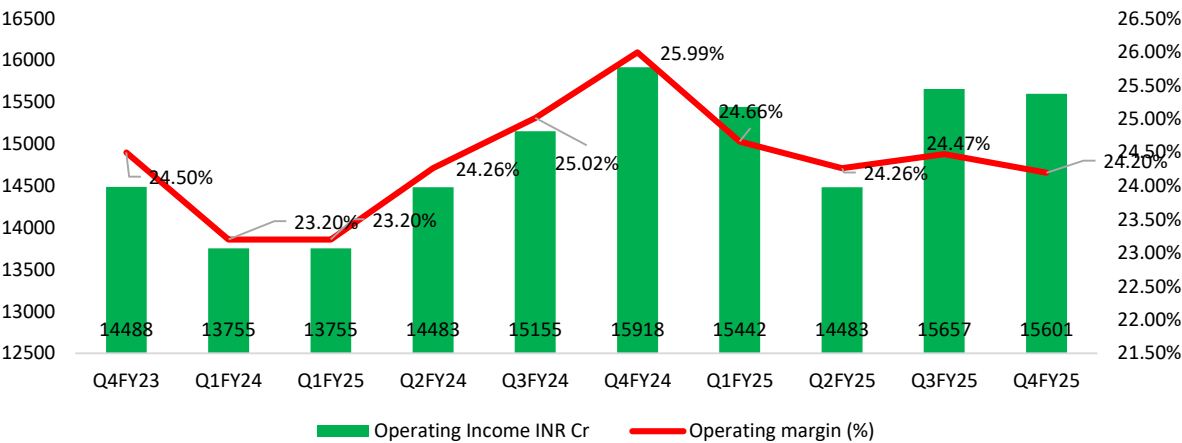
- FY26 expected to outperform FY25 financially, driven by strong TCV over last 2 quarters
- Record Q4 TCV at \$12.2B (NA: \$6.8B, BFSI: \$4B), no mega-deals
- Growth led by GenAI, cloud modernization, and vendor consolidation
- All new deals include AI components
- No major cost deflation from AI; instead, AI driving higher work volume
- Clients moving from GenAI pilots to production, generating fresh spend despite flat IT budgets
- BFSI demand stable focused on core upgrades, cloud, cybersecurity, and compliance
- ERU growing due to grid digitalization and renewable investments
- Growth markets strong, led by public sector nation-building projects
- Consumer, manufacturing, and auto sectors cautious; TCS pitching GenAI, IoT, and cost-efficiency solutions
- Geopolitical uncertainty causing longer decision cycles, but no deal cancellations
- Q4 operating margin at 24.2%, down 100 bps due to Jan promotions
- Targeting margin improvements via utilization, automation, and selective pricing
- Q4 revenue declined 0.8% QoQ in constant currency; international biz (94% of rev) grew 0.6% QoQ
- Consumer business seeing increased caution and delays in discretionary projects
- \$5.5B cash reserve supports AI investment and dividend payouts
- Campus hiring to increase in line with expected demand
- FY26 wage hike timing not yet decided
- Aarthi Subramanian appointed Exec. Director, President & COO from May 1, 2025. Mangesh Sathe to become Chief Strategy Officer from May 1, 2025
- BSNL deal still ongoing; to end in Q1FY26
- Company aiming for ~26% operating margin in the medium term
- The company is seeing some uncertainty and delays in decision-making over the past 4-5 weeks due to macroeconomic factors.

Exhibit 3: Steady growth led by Macro uncertainty



Source: Arihant Research, Company Filings

Exhibit 4: Decline in margin due to promotion and marketing expenses



Source: Arihant Research, Company Filings

Exhibit 5: Trend of Net margin sequentially

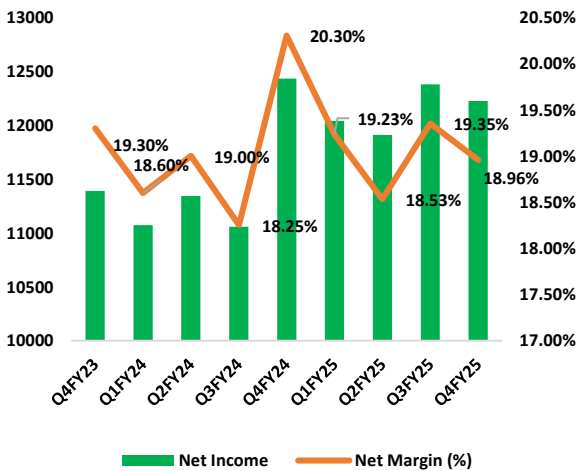
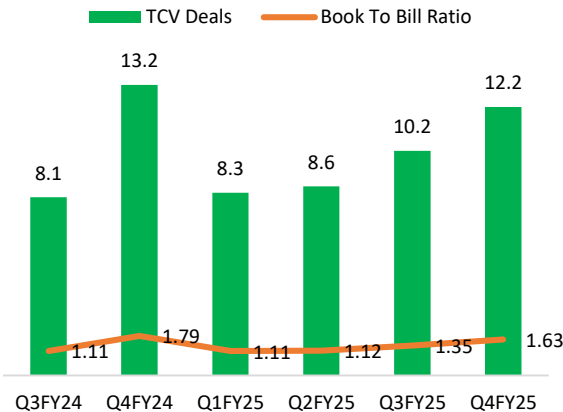


Exhibit 6: Strong TCV deal wins



Source: Arihant Research, Company Filings

Exhibit 7: Operating Metrics

Revenue Distribution by Industry Domain	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
BFSI	31.70%	31.30%	30.90%	30.90%	30.50%	31.2%
Consumer Business	15.70%	15.70%	15.40%	15.40%	15.30%	15.3%
Communication & Media	10.90%	6.60%	6.20%	6.20%	5.80%	5.8%
Manufacturing	8.70%	8.80%	8.80%	8.80%	8.40%	8.4%
Life Science & Healthcare	8.40%	10.90%	11.00%	11.00%	10.10%	10.1%
Energy & Utilities	6.70%	5.60%	5.60%	5.60%	5.60%	5.7%
Technology & Services	5.70%	8.20%	8.10%	8.10%	8.00%	8.1%
Regional Markets & Others	12.20%	12.90%	14.00%	14.00%	16.30%	15.4%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.0%
Currency Mix (% of Revenue)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
USD	52.91%	51.94%	51.50%	49.3%	49.43%	49.70%
GBP	14.35%	14.67%	14.63%	14.9%	14.43%	14.70%
EUR	11.14%	11.18%	11.02%	11.2%	10.64%	10.97%
OTHERS	21.60%	22.21%	22.85%	24.7%	25.50%	24.63%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Average Realized Rates in INR	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
USD	83.21	83.16	83.43	83.78	84.85	86.37
GBP	104.24	105.13	105.43	110.23	107.72	109.68
EUR	90.06	90.07	89.71	92.41	89.62	91.46
Clients Contribution - New Classification	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
USD 1 mn clients *	1288	1294	1310	1307	1309	1332
USD 5 mn clients *	693	693	697	710	722	723
USD 10 mn clients *	480	487	486	491	497	493
USD 20 mn clients *	299	301	300	298	294	298
USD 50 mn clients *	137	139	140	136	134	130
USD 100 mn clients *	61	62	63	66	64	64
* Last Twelve Months' services revenues; includes clients in India						
TCS EMPLOYEE METRICS	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Total Headcount	6,03,305	6,01,546	6,06,998	6,12,724	6,07,354	6,07,979
Number of Nationalities of associates						
% of Women associates	35.70%	35.60%	35.50%	35.50%	35.30%	35.20%
Revenue Distribution by Geography - New Classification	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Americas	52.7%	52.0%	51.4%	49.4%	49.6%	50.0%
North America	50.6%	50.0%	49.5%	47.6%	47.7%	48.2%
Latin America *	2.1%	2.0%	1.9%	1.8%	1.9%	1.8%
Europe	31.4%	31.4%	31.3%	31.6%	30.5%	31.1%
UK	16.4%	16.8%	16.9%	17.0%	16.6%	16.8%
Continental Europe	15.0%	14.6%	14.4%	14.6%	13.9%	14.3%
India	6.1%	6.7%	7.5%	8.9%	7.8%	8.4%
Asia Pacific	7.8%	7.8%	7.8%	8.0%	9.8%	8.1%
MEA	2.0%	2.1%	2.0%	2.1%	2.3%	2.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
LTM Attrition	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Attrition : IT Services	13.3%	12.5%	12.1%	12.3%	13.0%	13.3%

Source: Arianth Research, Company Filings

Key Financials

Income Statement (INR Cr)					
Year End-March	FY23	FY24	FY25	FY26E	FY27E
Revenues (US\$ mn)	27,927	29,080	30,179	31,523	33,294
Change (%)	8.6%	4.1%	3.8%	4.5%	5.6%
Revenues	225,458	240,893	255,324	266,937	282,677
Change (%)	17.6%	6.8%	6.0%	4.5%	5.9%
Employee costs	127,522	140,131	145,788	150,819	159,712
Operation and other expenses	166,199	176,597	187,917	194,811	206,213
Total Operating Expenses	293,721	316,728	333,705	345,630	365,925
Depreciation	5,022	4,985	5,242	6,072	6,045
EBIT	54237	59311	62165	66054	70419
EBIT Margin (%)	24.1%	24.6%	24.3%	24.7%	24.9%
Interest	779	778	796	797	798
Other Income	3,449	4,422	3,962	5,151	6,696
PBT	56,907	62,955	65,331	70,408	76,317
Exceptional Items	-	958.00	-	-	-
PBT after exceptional Items	56,907	61,997	65,331	70,408	76,317
Tax	14,604	15,898	16,534	17,884	19,385
Rate (%)	25.7%	25.3%	25.3%	25.4%	25.4%
PAT	42,303	46,099	48,797	52,524	56,933
Non-controlling interest	-156	-191	-244	-244	-244
Consolidated PAT	42,147	45,908	48,553	52,280	56,689
PAT Margin (%)	18.8%	19.1%	19.1%	19.7%	20.1%

Balance Sheet (INR Cr)					
Year End-March	FY23	FY24	FY25	FY26E	FY27E
Sources of Funds					
Share Capital	366	362	362	362	362
Reserves & Surplus	90,058	90,127	94,394	95,994	96,573
Non controlling interest	782	830	1,015	1,015	1,015.00
Total Equity	91,206	91,319	95,771	97,371	97,950
Deferred Tax Liability (Net)	792	977	980	980	980
Capital Employed	100,093	100,345	106,628	107,953	108,555
Application of Funds					
Gross Block	32,344	35,969	42,909	48,167	54,857
Less: Depreciation	22,114	26,593	31,931	37,875	44,611
Net Block	10,230	9,376	10,978	10,292	10,246
CWIP	1,234	1,564	1,546	1,546	1,546
Financial Assets	11,366	12,016	11,744	10,401	10,541
Investments	266	281	275	288	304
Inventories	28	28	21	22	22
Sundry debtors	49,954	53,577	59,046	72,402	73,573
Cash and bank	11,032	13,286	15,463	5,238	7,973
Other Current Assets	12,359	14,612	17,792	19,187	20,844
Total Current assets	110,270	112,984	123,011	128,934	136,389
Total Current liabilities	43,558	46,104	53,001	51,033	53,792
Net Current assets	66,712	66,880	70,010	77,900	82,597
Capital Employed	100,093	100,345	106,628	107,953	108,555

Source: Arihant Research, Company filings

Key Financials

Cash Flow Statement (INR Cr)

Year End-March	FY23	FY24	FY25	FY26E	FY27E
Profit for the Year	42,303	46,099	48,797	52,524	56,933
Depreciation	5,022	4,985	5,242	6,072	6,045
Finance Costs	779	778	796	797	798
Operating Profit before WC Changes	59,148	63,709	67,853	73,717	79,600
Operating Profit after WC Changes	54,931	56,827	64,494	84,003	82,473
Direct Taxes Paid & Exceptional Items	(12,966)	(12,489)	(15,586)	(17,884)	(19,385)
Cash Flow from Operating Activities	41,965	44,338	48,908	66,120	63,088
Cash Flow from Investing Activities	39	6,026	(2,318)	(16,159)	(1,857)
Cash Flow from Financing Activities	(47,878)	(48,536)	(47,438)	(53,239)	(58,670)
Net Change in Cash & Cash Equivalents	(5,874)	1,828	(848)	(3,278)	2,561
Opening Cash & Cash Equivalents	12,488	7,123	9,016	8,342	5,238
Closing Cash & Cash Equivalents	7,123	9016	8342	5238	7973

Key Ratios

Year End-March	FY23	FY24	FY25	FY26E	FY27E
Per share (INR)					
EPS	115.2	125.9	134.2	144.4	156.6
BVPS	245	249	265	269	271
Valuation (x)					
P/E	28.2	25.8	24.2	22.5	20.7
P/BV	13.0	12.9	12.3	12.1	12.0
Return ratio (%)					
EBITDA Margin	26.3%	26.7%	26.3%	26.7%	26.4%
EBIT Margin	24.1%	24.6%	24.3%	24.7%	24.9%
PAT Margin	18.8%	19.1%	19.1%	19.7%	20.1%
ROE	46.2%	50.3%	50.7%	53.7%	57.9%
ROCE	44.2%	48.5%	48.5%	50.6%	53.6%
Leverage Ratio (%)					
Total D/E	0.1	0.1	0.1	0.1	0.1
Turnover Ratios					
Asset Turnover (x)	23.0	23.7	24.0	26.0	27.6
Inventory Days	5	5	5	5	5
Receivable Days	74	78	81	99	95

Source: Arianth Research, Company Filings

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st 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

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Arihant Capital Markets Ltd.

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