

Weak quarter; macro uncertainty weighs on growth

Information Technology ▶ Result Update ▶ July 11, 2025

CMP (Rs): 3,382 | TP (Rs): 3,500

TCS's Q1FY26 operating performance was weaker than our expectation. Revenue declined 0.6% QoQ (-3.3% CC) to USD7.42bn, below our estimate, impacted by the ramp-down in BSNL deal, delays in decision-making and project commencement with respect to discretionary investments amid elevated macro uncertainty. BSNL deal's ramp-down impacted growth by 2.8%, while international revenue declined 0.5% QoQ in constant currency (CC). EBITM expanded 30bps QoQ to 24.5%. Deal wins remained steady at USD9.4bn (book-to-bill: 1.3x) and a tad above the management's guided comfortable range of USD7-9bn per quarter. The company observed a trend of project deferrals, scope reduction, and decision delays which was intensified to some extent in Q1, resulting in less-than-expected revenue conversion. The management reiterated that international market revenue growth would be better in FY26 vs FY25 and highlighted that if macro improves with no further delays, Q2 could turn out better than Q1. We trim our earnings estimate by ~1.5% for FY27/FY28, factoring in the Q1 performance. We retain ADD with TP of Rs3,500, at 23x Jun-27E EPS.

Results summary

Revenue declined 0.6% QoQ (down 3.3% QoQ in CC) to USD7.42bn. EBITM expanded 30bps QoQ to 24.5%, a tad above our estimate, supported by lower third-party expenses (+70bps) and currency tailwinds, though partially offset by lower utilization. Cost of equipment and software licenses decreased ~USD232mn QoQ which partly indicates BSNL deal's ramp-down. Among geographies, North America, the UK, Continental Europe, and APAC saw increases of 0.4%, 6.5%, 4.3%, and 3.1% QoQ, respectively (in USD terms), while India saw a decline of 31.4% QoQ. Revenue decline in India is largely owing to the ramp-down in the BSNL deal. Headcount grew 0.8% QoQ to 613,069. Attrition inched up to 13.8%, from 13.2% in Q4FY25. TCS has announced an interim dividend of Rs11/share. **What we like:** Strong deal intake, steady cash conversion. **What we did not like:** Revenue miss, weak revenue conversion.

Earnings call KTAs

1) The deal pipeline continues to remain healthy and well distributed across verticals and geographies. 2) BFS clients are cautious with investments due to macro uncertainty; US insurance continues to remain soft, while Europe is doing well. Discretionary spends remain under pressure. 3) MedTech faces regulatory scrutiny, shifting demand patterns, cost pressures, and regional consolidation. 4) Consumer remains the most impacted vertical, driven by funding delays, project postponements, and delayed milestone completions. 5) Enterprises in CMT are re-evaluating their priorities with key focus on AI, automation, cost optimization, and vendor consolidation. 6) Manufacturing remains subdued due to challenges and reduced spending in Auto. Clients are focused on lowering tech debt and preparing infrastructure for future demand. 7) Spending and capital investment in ERU is down amid policy changes and geopolitical tensions... (cont)...

Target Price – 12M	Jun-26
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	3.5

Stock Data	TCS IN
52-week High (Rs)	4,520
52-week Low (Rs)	3,056
Shares outstanding (mn)	3,618.1
Market-cap (Rs bn)	12,236
Market-cap (USD mn)	142,873
Net-debt, FY26E (Rs mn)	(511,469.5)
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	8,862.0
ADTV-3M (USD mn)	103.5
Free float (%)	28.2
Nifty-50	25,355.3
INR/USD	85.6

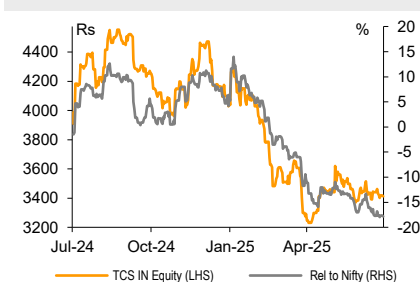
Shareholding, Mar-25

Promoters (%)	71.8
FPIs/MFs (%)	12.0/11.6

Price Performance

(%)	1M	3M	12M
Absolute	(2.3)	4.2	(12.1)
Rel. to Nifty	(3.3)	(8.0)	(15.7)

1-Year share price trend (Rs)



TCS: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	2,408,930	2,553,240	2,616,336	2,799,611	2,984,590
EBITDA	633,370	674,070	697,910	758,674	809,066
Adj. PAT	459,080	485,530	506,527	543,479	578,630
Adj. EPS (Rs)	126.9	134.2	140.0	150.2	159.9
EBITDA margin (%)	26.3	26.4	26.7	27.1	27.1
EBITDA growth (%)	6.9	6.4	3.5	8.7	6.6
Adj. EPS growth (%)	10.2	5.8	4.3	7.3	6.5
RoE (%)	49.6	51.2	51.0	52.3	53.1
RoIC (%)	100.3	100.3	98.7	102.5	102.4
P/E (x)	26.7	25.2	24.2	22.5	21.1
EV/EBITDA (x)	18.6	17.5	16.9	15.5	14.5
P/B (x)	13.2	12.6	12.0	11.5	11.0
FCFF yield (%)	3.8	4.0	4.2	4.3	4.6

Source: Company, Emkay Research

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... (cont)... 8) Across industries, clients are increasingly shifting their focus from use case-based approach to RoI-led scaling of AI. 9) Deal wins were steady at USD9.4bn (book-to-bill ~1.3x) in Q1 (excluding the BSNL APO). 10) Enterprises are moving beyond pilots to production-grade GenAI rollouts, focusing on AI-led business transformation, AI-enabled SDLC, and data platform modernization. 11) TCS is expanding its AI platform (TCS WisdomNext) with agentic AI capabilities and strengthening partnerships with hyperscalers and native AI and data companies. It is investing across the AI ecosystem, including infrastructure, data platform solutions, AI agents, and business applications. 12) Customer spend is clustering around three big themes (a) AI-led business transformation, (b) AI-enabled SDLC/IT operations, and (c) data platform modernization that supports agentic AI. 13) TCS has over 114,000 people with higher order AI skills. 14) The company is recalibrating its hiring based on the demand outlook and will decide on wage hike for FY26 based on the macro environment.

Exhibit 1: Quarterly Snapshot

Particular (Rs mn)	Q1 FY26	Q4 FY25	QoQ (%)	Q1 FY25	YoY (%)
Net sales (USD mn)	7,421	7,465	-0.6	7,505	-1.1
Net sales	634,370	644,790	-1.6	626,130	1.3
Operating expenses	465,620	474,990		459,510	
EBITDA	168,750	169,800	-0.6	166,620	1.3
Margins (%)	26.6	26.3	30.0	26.6	-
Depreciation	13,610	13,790		12,200	
EBIT	155,140	156,010	-0.6	154,420	0.5
Margins (%)	24.5	24.2	30.0	24.7	(20.0)
Other income	14,650	8,010		7,890	
Pre-tax profit	169,790	164,020	3.5	162,310	4.6
Tax provided	41,600	41,090		41,260	
Profit after tax	128,190	122,930		121,050	5.9
Emkay - Net profit	127,600	122,240	4.4	120,400	6.0
EPS (Rs)	35.3	33.8	4.4	33.3	6.0

Source: Company, Emkay Research

Exhibit 2: Actuals vs Estimates

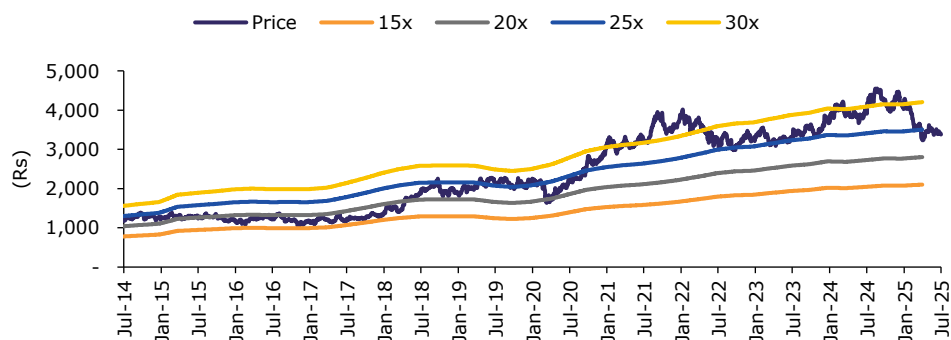
(Rs mn)	Actual	Estimate		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	7,421	7,577	7,504	-2.1%	-1.1%	Revenues were weaker than estimates.
Sales	634,370	648,589	642,230	-2.2%	-1.2%	
EBIT	155,140	157,607	156,062	-1.6%	-0.6%	EBITM came a tad above our expectation.
EBIT margin	24.5%	24.3%	24.3%	20 bps	20 bps	
PAT	127,600	122,500	122,024	4.2%	4.6%	Reported profit beat expectations due to higher other income (includes one-off interest on tax refunds of ~Rs6bn).

Source: Company, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY26E			FY27E			FY28E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	30,803	30,334	-1.5%	32,498	31,996	-1.5%	34,456	33,916	-1.6%
YoY growth (%)	2.1	0.5		5.5	5.5		6.0	6.0	
Revenue	2,657,612	2,616,336	-1.6%	2,843,555	2,799,611	-1.5%	3,032,163	2,984,590	-1.6%
EBIT	649,805	642,678	-1.1%	710,867	699,882	-1.5%	758,287	746,389	-1.6%
EBIT margins (%)	24.5	24.6		25.0	25.0		25.0	25.0	
Net profit	504,606	506,527	0.4%	550,957	543,479	-1.4%	587,181	578,630	-1.5%
EPS (Rs)	139.5	140.0	0.4%	152.3	150.2	-1.4%	162.3	159.9	-1.5%

Source: Company, Emkay Research

Exhibit 4: TCS – One-year forward P/E

Source: Company, Emkay Research

TCS: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	2,408,930	2,553,240	2,616,336	2,799,611	2,984,590
Revenue growth (%)	6.8	6.0	2.5	7.0	6.6
EBITDA	633,370	674,070	697,910	758,674	809,066
EBITDA growth (%)	6.9	6.4	3.5	8.7	6.6
Depreciation & Amortization	49,840	52,420	55,231	58,792	62,676
EBIT	583,530	621,650	642,678	699,882	746,389
EBIT growth (%)	7.6	6.5	3.4	8.9	6.6
Other operating income	-	-	-	-	-
Other income	44,220	39,620	46,284	41,278	42,318
Financial expense	7,780	7,960	7,950	8,000	8,000
PBT	619,970	653,310	681,012	733,160	780,708
Extraordinary items	0	0	0	0	0
Taxes	158,980	165,340	171,962	186,956	199,080
Minority interest	(1,910)	(2,440)	(2,523)	(2,725)	(2,998)
Income from JV/Associates	0	0	0	0	0
Reported PAT	459,080	485,530	506,527	543,479	578,630
PAT growth (%)	8.9	5.8	4.3	7.3	6.5
Adjusted PAT	459,080	485,530	506,527	543,479	578,630
Diluted EPS (Rs)	126.9	134.2	140.0	150.2	159.9
Diluted EPS growth (%)	10.2	5.8	4.3	7.3	6.5
DPS (Rs)	73.0	126.0	127.0	137.0	146.0
Dividend payout (%)	57.5	93.9	90.7	91.2	91.3
EBITDA margin (%)	26.3	26.4	26.7	27.1	27.1
EBIT margin (%)	24.2	24.3	24.6	25.0	25.0
Effective tax rate (%)	25.6	25.3	25.3	25.5	25.5
NOPLAT (pre-IndAS)	433,894	464,323	480,396	521,412	556,060
Shares outstanding (mn)	3,618	3,618	3,618	3,618	3,618

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	3,620	3,620	3,620	3,620	3,620
Reserves & Surplus	922,500	965,200	1,012,230	1,060,032	1,110,420
Net worth	926,120	968,820	1,015,850	1,063,652	1,114,040
Minority interests	8,300	10,150	12,673	15,398	18,396
Non-current liab. & prov.	(23,920)	(25,600)	(26,600)	(27,600)	(28,600)
Total debt	0	0	0	0	0
Total liabilities & equity	990,710	1,047,290	1,095,463	1,144,990	1,197,376
Net tangible fixed assets	112,240	129,320	130,320	131,320	132,230
Net intangible assets	5,100	9,400	9,400	9,400	9,400
Net ROU assets	78,860	92,750	92,750	92,750	92,750
Capital WIP	-	-	-	-	-
Goodwill	-	-	-	-	-
Investments [JV/Associates]	-	-	-	-	-
Cash & equivalents	468,250	472,300	511,469	526,527	544,137
Current assets (ex-cash)	747,690	838,140	857,249	915,478	974,225
Current Liab. & Prov.	461,320	534,860	545,961	570,725	595,696
NWC (ex-cash)	286,370	303,280	311,284	344,753	378,529
Total assets	990,710	1,047,290	1,095,463	1,144,990	1,197,376
Net debt	(468,250)	(472,300)	(511,469)	(526,527)	(544,137)
Capital employed	990,710	1,047,290	1,095,463	1,144,990	1,197,376
Invested capital	443,600	482,240	491,244	525,713	560,489
BVPS (Rs)	256.0	267.8	280.8	294.0	307.9
Net Debt/Equity (x)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Interest coverage (x)	80.7	83.1	86.7	92.6	98.6
RoCE (%)	67.2	69.1	68.6	70.3	71.3

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	585,880	643,830	506,527	543,479	578,630
Others (non-cash items)	209,160	218,610	57,754	61,517	65,674
Taxes paid	(124,890)	(155,860)	0	0	0
Change in NWC	(75,940)	(36,460)	(9,004)	(34,469)	(34,776)
Operating cash flow	469,320	514,260	555,278	570,527	609,528
Capital expenditure	(26,470)	(39,090)	(56,231)	(59,792)	(63,676)
Acquisition of business	0	(10,630)	0	0	0
Interest & dividend income	38,220	33,430	39,464	34,078	35,118
Investing cash flow	27,340	(46,130)	(99,101)	(59,792)	(63,676)
Equity raised/(repaid)	(210,050)	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(16,140)	(16,640)	(380)	0	0
Interest paid	-	-	-	-	-
Dividend paid (incl tax)	(252,180)	(449,620)	(459,497)	(495,678)	(528,241)
Others	0	280	0	0	0
Financing cash flow	(478,370)	(465,980)	(459,877)	(495,678)	(528,241)
Net chg in Cash	18,290	2,150	(3,701)	15,057	17,611
OCF	469,320	514,260	555,278	570,527	609,528
Adj. OCF (w/o NWC chg.)	545,260	550,720	564,282	604,996	644,304
FCFF	442,850	475,170	499,047	510,735	545,851
FCFE	473,290	500,640	530,560	536,813	572,969
OCF/EBITDA (%)	74.1	76.3	79.6	75.2	75.3
FCFE/PAT (%)	103.1	103.1	104.7	98.8	99.0
FCFF/NOPLAT (%)	102.1	102.3	103.9	98.0	98.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	26.7	25.2	24.2	22.5	21.1
EV/CE(x)	12.6	12.0	11.4	10.9	10.4
P/B (x)	13.2	12.6	12.0	11.5	11.0
EV/Sales (x)	4.9	4.6	4.5	4.2	3.9
EV/EBITDA (x)	18.6	17.5	16.9	15.5	14.5
EV/EBIT(x)	20.2	18.9	18.3	16.8	15.8
EV/IC (x)	26.5	24.4	24.0	22.4	21.0
FCFF yield (%)	3.8	4.0	4.2	4.3	4.6
FCFE yield (%)	3.9	4.1	4.3	4.4	4.7
Dividend yield (%)	2.2	3.7	3.8	4.1	4.3
DuPont-RoE split					
Net profit margin (%)	19.1	19.0	19.4	19.4	19.4
Total asset turnover (x)	2.6	2.7	2.7	2.7	2.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	49.6	51.2	51.0	52.3	53.1
DuPont-RoIC					
NOPLAT margin (%)	18.0	18.2	18.4	18.6	18.6
IC turnover (x)	5.6	5.5	5.4	5.5	5.5
RoIC (%)	100.3	100.3	98.7	102.5	102.4
Operating metrics					
Core NWC days	43.4	43.4	43.4	44.9	46.3
Total NWC days	43.4	43.4	43.4	44.9	46.3
Fixed asset turnover	15.0	15.2	14.6	15.5	16.4
Opex-to-revenue (%)	73.7	73.6	73.3	72.9	72.9

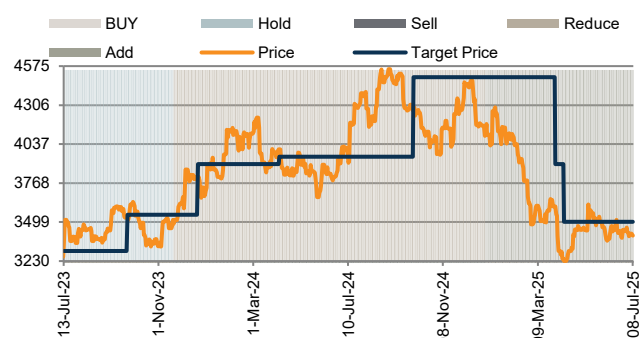
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jul-25	3,430	3,500	Add	Dipeshkumar Mehta
11-Apr-25	3,232	3,500	Add	Dipeshkumar Mehta
31-Mar-25	3,606	3,900	Add	Dipeshkumar Mehta
10-Jan-25	4,266	4,500	Add	Dipeshkumar Mehta
01-Jan-25	4,112	4,500	Add	Dipeshkumar Mehta
11-Oct-24	4,149	4,500	Reduce	Dipeshkumar Mehta
01-Oct-24	4,288	4,500	Reduce	Dipeshkumar Mehta
01-Jul-24	3,978	3,950	Reduce	Dipeshkumar Mehta
01-Jul-24	3,978	3,950	Reduce	Dipeshkumar Mehta
09-Jun-24	3,894	3,950	Reduce	Dipeshkumar Mehta
03-Jun-24	3,703	3,950	Reduce	Dipeshkumar Mehta
27-May-24	3,847	3,950	Reduce	Dipeshkumar Mehta
13-Apr-24	4,001	3,950	Reduce	Dipeshkumar Mehta
31-Mar-24	3,876	3,900	Reduce	Dipeshkumar Mehta
01-Mar-24	4,094	3,900	Reduce	Dipeshkumar Mehta
12-Jan-24	3,883	3,900	Reduce	Dipeshkumar Mehta
31-Dec-23	3,793	3,900	Reduce	Dipeshkumar Mehta
30-Nov-23	3,488	3,550	Reduce	Dipeshkumar Mehta
12-Oct-23	3,543	3,550	Hold	Dipeshkumar Mehta
02-Oct-23	3,529	3,550	Hold	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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