Tata Consultancy Services Ltd.

India Equity Research || Current Market Price – **INR 2,272** || Target Price – **INR 2,525** || Upside – 11.1**%** || Date: 25th August 2026

TCS Partners with Porsche AG in a Landmark EUR 1.25 Billion AI Transformation Deal

TCS, through its wholly owned subsidiary TCS Netherlands B.V., has announced the acquisition of 100% equity shares of MHP Management und IT-Beratung GmbH (MHP), Porsche AG's Germany-based management and IT consulting subsidiary, for an enterprise value of EUR 320 million (approx. INR 3,550 Cr). Alongside the acquisition, Porsche AG has executed a five-year strategic deal worth EUR 1.25 billion (approx. INR 13,900 Cr) with MHP and TCS to industrialize AI across Porsche's engineering, manufacturing, operations, customer experience and enterprise transformation agenda. TCS will also establish a dedicated AI Mobility Centre of Excellence for Porsche. The deal is valued at approximately 0.43x CY25 sales, which is inexpensive on an absolute basis. MHP brings approximately 4,500 specialists with deep expertise in automotive and industrial consulting, AI, SAP, software-defined mobility and manufacturing digitalization.

Key investment thesis/Key highlights:

- **Strategic Partnership at Attractive Acquisition Multiple:** TCS's five-year EUR 1.25 billion Porsche deal provides medium-term revenue visibility and strengthens its position in AI-led automotive transformation. MHP was acquired at ~0.43x CY25 sales and an implied ~7x CY26 EV/EBITDA, appearing attractive versus IT/consulting transactions. However, MHP's declining revenue tempers the valuation appeal, while the Porsche contract remains <1% of TCS's annual revenue. Overall, the transaction is expected to be EPS neutral to marginally accretive.

- **Geographic & Sectoral Diversification with Specialized Talent:** MHP expands TCS's presence in European automotive and industrial AI transformation while reducing dependence on the US market. Its ~4,500 specialists add domain expertise across automotive, SAP, manufacturing digitalization, connected mobility and AI, capabilities that would be difficult to build organically. However, MHP's German-heavy onsite delivery model carries higher costs, implying ~50–60 bps near-term margin dilution. European margins will therefore remain a key metric to monitor.

- **M&A Signals a Strategic Shift Towards Capability-Led Growth:** The MHP acquisition reinforces TCS's strategic shift from predominantly organic growth towards capability-led inorganic expansion, with ~USD 1.15 billion spent on acquisitions in ten months. This reflects increasing pressure on the traditional IT services growth model amid AI-driven productivity changes. While MHP adds valuable automotive, AI and software-defined mobility capabilities, the Porsche contract primarily improves revenue visibility rather than solving TCS's organic growth challenge. The key question remains whether these acquisitions can reignite sustainable growth.

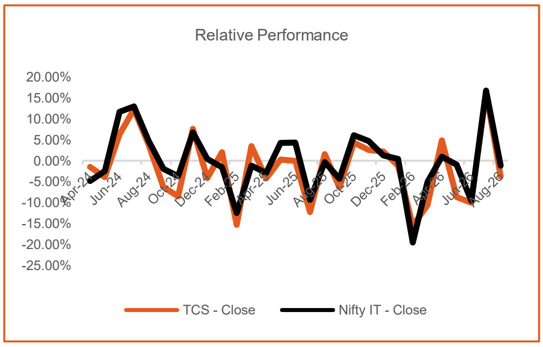
Outlook:

TCS's MHP acquisition marks a strategic shift towards capability-led inorganic growth, with the Porsche partnership providing INR 13,900 Cr of committed spending over five years. We estimate ~3% incremental revenue and ~1% PAT growth at steady state, with ramp-up from Q4 FY27 and full contribution from FY28. Near-term margins could dilute 50–60 bps, making European margins a key monitorable. Execution, integration, and Volkswagen's spending remain critical risks to the outlook.

Particulars	
CMP (INR)	2,272
Market Cap (Cr)	8,23,024
Free Float Market Cap (Cr)	2,31,518
52 Week High / Low (INR)	3,336 / 1,976
Avg Daily Vol (1Y) shares	40,40,326
No. of Shares (Cr.)	362

Key Financial (INR Mn.)	FY26	FY27E	FY28E
Revenue	26,70,210	28,48,759	29,02,973
EBITDA	7,15,990	7,52,157	7,76,654
EBITDA (%)	26.8%	26.4%	26.8%
EBIT	6,60,390	6,95,211	7,18,560
PAT	4,94,540	5,50,289	5,70,978
EPS	136.7	152.1	157.8

Holding	Dec-25	Mar-26	Jun-26
Promoters (%)	71.77	71.77	71.77
FIIs (%)	10.37	9.66	9.07
DIIs (%)	12.81	13.34	13.41
Govt. (%)	0.06	0.06	0.06
Public (%)	4.98	5.16	5.69
Total (%)	100.00	100.00	100.00



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More Key Details:

- **MHP's Client Base and Revenue Concentration:** MHP serves over 300 clients across automotive and industrial verticals. Approximately 40% of MHP's revenue is derived from Porsche alone, with Volkswagen Group being another significant anchor client. This makes client concentration a key monitorable, as the top two clients (both within the VW Group umbrella) likely account for a disproportionate share of MHP's EUR 742 million revenue.

- **MHP Retains Its Brand and Operates Independently:** Post-acquisition, MHP will retain its brand identity and continue to operate as an independent consultancy under its existing name within the TCS organization. This is important for client retention, as MHP's European automotive clients are accustomed to engaging with MHP as a distinct brand, not as a division of a large Indian IT services firm.

- **AI Mobility Centre of Excellence (CoE) Scope:** The CoE will focus on industrializing use cases across several core technologies for the mobility sector, including intelligent manufacturing and operations, engineering, customer experience and enterprise transformation. The CoE's role is to convert AI ideas into secure and scalable solutions that enhance velocity, operations resilience and competitiveness across Porsche's product and value chain.

- **Annualized AI Revenue Run Rate:** TCS reported annualized AI revenue of USD 2.6 billion in Q1 FY27, up 13.6% QoQ. The Porsche partnership and MHP acquisition are expected to further accelerate this AI revenue trajectory, as the deal is centred on industrializing AI use cases across the automotive value chain.

- **Porsche's Strategic Context ("Sportwagenschmiede 35"):** The sale of MHP is part of Porsche's broader "Sportwagenschmiede 35" strategy, under which it is sharpening focus on its core sports-car business. Porsche has been restructuring its portfolio, including the sale of stakes in Bugatti and Rimac and the closure of several subsidiaries. In H1 CY2026, Porsche reported revenue of EUR 17.23 billion (down 5.1% YoY), but operating profit rose 33.9% to EUR 1.35 billion as return on sales improved to 7.8% from 5.5%. Porsche has also set out plans to cut 9,000 jobs by 2035. This means the seller was strategically motivated, which partly explains the attractive acquisition multiple.

Key risks:

- **Client Concentration Risk:** Post-acquisition, MHP's revenue base is heavily concentrated in Porsche and Volkswagen Group. While Porsche has signed a five-year spending commitment with TCS, Volkswagen has not signed any such commitment. High client concentration in the impacted German automotive sector poses downside risks.

- **German Automotive Sector Exposure:** The German automotive industry is undergoing significant structural challenges, including the transition to electric vehicles, rising competition from Chinese OEMs and weakening demand in key markets. MHP's high reliance on the German automotive sector exposes TCS to cyclical and structural headwinds in this space.

- **Currency Risk:** Given that MHP's revenues are predominantly in EUR and the deal is structured in EUR, fluctuations in the EUR/INR exchange rate could impact reported financials. The current EUR/INR rate of approximately 111 provides a favourable translation, but adverse currency movements remain a risk.

- **Regulatory Approval Risk:** The acquisition is subject to approvals from the European Commission under EU merger control regulation, EU Foreign Subsidies Regulation, and the Commission for the Examination of Foreign Direct Investments in Romania. Any delays or conditions imposed by regulators could impact the deal timeline and economics.

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Date	**CMP (INR)**	**TP (INR)**	**Recommendation**
25-Aug-26	2,272	2,525	ACCUMULATE
10-Jul-26	2,080	2,525	BUY
10-Apr-26	2,500	3,080	BUY
13-Jan-26	3,240	3,605	ACCUMULATE
10-Oct-25	3,062	3,615	BUY
11-Jul-25	3,382	4,067	BUY
11-Apr-25	3,247	4,144	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	**Upside**
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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