

July 10, 2026

Broad-based demand recovery remains elusive...

About the stock: Tata Consultancy Services (TCS) is one of the leading IT service providers with a presence in BFSI, communication, manufacturing, retail & hi tech.

Q1FY27 Performance: TCS reported revenue of US\$7,624 mn flat QoQ/ 2.7% YoY (+0.4% QoQ CC/+3.2% YoY CC). EBIT margin stood at 24%, down ~130 bps QoQ, primarily due to wage hike impact (-170 bps). PAT (before exceptional item of ₹668 crore) came in at ₹13,849 crore, up 1% QoQ/8.5% YoY while PAT (after exceptional item) stood at ₹13,349 crore, down 2.7% QoQ/ up 4.6% YoY.

Investment Rationale

- Broad-based growth still absent:** Growth stayed narrow, with Regional Markets (+9% YoY CC) and ER&U (+6.9% YoY CC) leading, while Consumer Business (-1.2% YoY CC) continued to decline on geopolitical-led weakness in airlines and non-essential retail, and Manufacturing (+2.9% YoY CC) stayed soft on auto-related tariff pressures. **Management guided for a gradual Q2 recovery in Manufacturing and Life Sciences, with Consumer normalizing only once geopolitical sentiment improves.** Until this broad-based recovery plays out, growth visibility remains selective segment driven, keeping near-term upside contingent on discretionary spend revival. **TCS closed Q1 with a US\$9.5 bn TCV (-21% QoQ/ +1% YoY), slightly modest in our view, despite net-new 5-year US\$800mn SKF AI-led transformation mega deal. Management remains optimistic for recovery in Q2 owing to client's pent up technology backlog & expects FY27 to be better than FY26. We expect dollar revenue to grow at CAGR of ~2.9% over FY26-FY28E.**
- Margin reset on wage hikes; recovery path intact:** EBIT margin fell 130bps QoQ to 24%, primarily impacted by the annual wage hike rolled out w.e.f. 1 April 2026 (-170bps), partly offset by currency tailwinds and operational efficiencies (+40bps). **Management reiterated its aspiration to exit the year at 25%+ margins, with the wage-led headwind typically front-loaded in Q1 and easing through subsequent quarters.** Continued investment in AI capabilities, partnerships and talent, however, could keep the pace of margin recovery contingent on execution discipline and demand normalization. **Accordingly, we have baked in EBIT margins of 24.6% and 24.8% in FY27E and FY28E.**
- AI momentum sustains growth visibility:** The Annualized AI revenue rose to US\$2.6 bn (+13.6% QoQ), now 8.5% of revenue mix, aided by new-age partnerships with Anthropic and Mistral. **Management also flagged 10-15% productivity pass-through to clients which is being largely offset by incremental transformation opportunities, reinforcing that AI adoption is translating into fresh deal wins rather than pure margin erosion for TCS.**

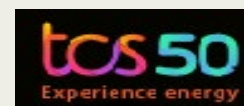
Rating and Target Price

While TCS continues to demonstrate strong execution and sustained AI momentum, we believe these positives are largely offset by accelerated pricing deflation leading to limited earnings upside. Thus, we downgrade to HOLD rating with a TP of ₹2,200, valuing it at 14x FY28E EPS.

Key Financial Summary

₹ crore	FY24	FY25	FY26	5 year CAGR (FY21-26)	FY27E	FY28E	2 year CAGR (FY26-28E)
Net Sales	2,40,893	2,55,324	2,67,021	10.2	2,87,855	2,95,857	5.3
EBITDA	63,337	67,407	72,398	9.2	76,521	79,497	4.8
EBITDA Margins (%)	26.3	26.4	27.1		26.6	26.9	
Adj. PAT	45,908	48,553	52,820	10.2	56,300	56,628	3.5
Adj. EPS (₹)	125.9	134.2	146.0		155.6	156.5	
P/E	16.2	15.4	15.4		13.2	13.2	
RoNW (%)	50.7	51.2	49.3		46.2	42.7	
RoCE (%)	60.9	60.4	57.1		54.7	50.9	

Source: Company, ICICI Direct Research



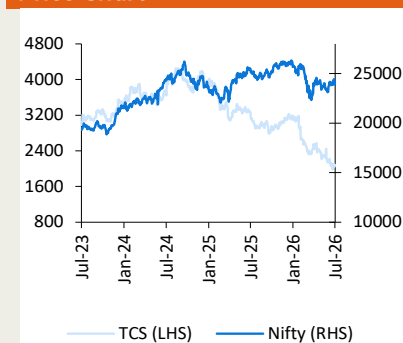
Particulars

Particular	Amount
Market Cap (₹ Crore)	7,54,770
Total Debt (₹ Crore)	11,283
Cash & equiv. (₹ Crore)	40,187
EV (₹ Crore)	7,25,866
52 week H/L	3489 / 1976
Equity capital (₹ Crore)	362
Face value	1.0

Shareholding pattern

	Jun-25	Sep-25	Dec-25	Mar-26
Promoters	71.8	71.8	71.8	71.8
FII	11.5	10.3	10.4	9.7
DII	12.0	12.7	12.9	13.4
Others	4.8	5.2	5.0	5.2

Price Chart



Key risks

- Lower than expected ROIs from data centre capex plans;
- Slower than expected revenue growth recovery

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Performance highlights and outlook

- **Revenue performance:** TCS in Q1 reported revenue of US\$7,624 mn flat QoQ/ 2.7% YoY (in CC terms +0.4% QoQ /+3.2% YoY). In rupee terms the revenue stood at ₹72,275 crore, up 2.2% QoQ / 13.9% YoY.
- **AI services revenue and partnerships:** Annualized AI services revenue was US\$2.6 bn in Q1, up 13.6% QoQ (implying 8.5% of revenue mix). Management mentioned that AI revenue is lumpy in nature as AI projects remain shorter in tenure (1-2 quarters) vs traditional projects leading to uneven conversion. Strategic partnerships with Anthropic and Mistral further strengthen the company's AI capabilities. Notably, management indicated that AI-led productivity gains of ~ 10–15% are increasingly being passed on to clients, although incremental transformation opportunities are helping offset revenue deflation.
- **Geography performance:** Geography wise on YoY CC basis growth was led by India (6.2% of the mix), MEA (2.5% of the mix), Continental Europe (15.4% of the mix), APAC (8.4% of the mix) and North America (48.3% of the mix) which grew by 22.9%, 7.6%, 4.3%, 2.5% and 2% respectively while Latin America (2% of the mix) and UK (17.2% of the mix) declined by 2.1% and 0.6%.
- **Segment performance:** Segment wise, in YoY CC terms growth was driven by Regional Markets & Others (13.3% of the mix), ER&U (6.3% of the mix), Tech & Services (8.5% of the mix), Life Sciences & Healthcare (10.3% of the mix), Manufacturing (8.7% of the mix), BFSI (32.1% of the mix) and Communication & Media (5.8% of the mix) which grew by 9%, 6.9%, 3.5%, 3.5%, 2.9%, 2.4% and 1.4% respectively, while Consumer Business (15% of the mix) declined by 1.2%.
 - **BFSI:** Demand remained steady in this segment and management remains positive of continued growth momentum here.
 - **Consumer Business:** Consumer Business (-1.2% YoY CC) continued to decline on geopolitical-led weakness in airlines and non-essential retail. There were some large project completions too which led to slower growth in the segment. Management expects the segment to normalizing only once geopolitical sentiment improves.
 - **Manufacturing and Healthcare & Lifesciences:** Manufacturing (+2.9% YoY CC) stayed soft on auto-related tariff pressures. Management expects both these segments to recover Q2FY27 onwards as underlying demand remains strong.
- **Margin performance:** EBIT margin stood at 24%, down ~130 bps QoQ, primarily due to wage hike impact (-170 bps) and investments in partnerships, employees and M&A charges which was partially offset by currency tailwinds and operational efficiencies (+40 bps). PAT for the quarter (before exceptional items of ₹668 crore w.r.t settlement of legal claim) came in at ₹13,849 crore, up 1% QoQ/8.5% YoY while PAT (after exceptional item) stood at ₹13,349 crore, down 2.7% QoQ/ up 4.6% YoY.
- **TCV:** The company recorded TCV of US\$9.5 bn (-21% QoQ/ +1% YoY), including a 5-year net new US\$800mn AI-led transformation mega deal with SKF (0.5% incremental annual revenue), multi-million-dollar strategic partnership with ServiceNow and a multi-million-dollar deal with a Europe-based Fortune Global 50 client. **BFSI, Retail & North America reported TCV of US\$2.5 bn, US\$1.4 bn & US\$4.7 bn respectively.** TCS has won six mega deals in the last five quarters.
- **Demand Outlook and Geopolitical impact:** Management remains optimistic for recovery in Q2 and expects FY27 to be better than FY26. On the margins front, management reiterated its intent to restore margins to 25%+ in this FY through operational efficiencies while continuing its investments in AI capabilities, though the pace of recovery will remain dependent on demand normalization and continued investments in AI capabilities. Key margin levers ahead are pyramid optimisation, productivity improvement, better resource fulfilment, automation and disciplined cost management.

- **AI Data Centre:** Management noted that Hypervault is strengthening TCS market positioning and deepening 360-degree partnerships with clients and ecosystem partners.
- **Attrition and employee addition:** The total headcount for the quarter stood at 5,93,798 employees, **a net addition of 9,279 employees QoQ (highest in 15 quarters)**. The voluntary attrition for the quarter stood at 13.6%, down 10 bps QoQ. **Management commentary noted that they do not see any major reduction in headcount due to AI-led automation.**
- **Dividend:** The company declared an interim dividend of ₹12 per share.

Exhibit 1: Quarter Performance

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
Revenue (US\$ mn)	7,624	7,421	2.7	7,621	0.0	In CC terms revenue was up 0.4% QoQ and 3.2% YoY.
Revenue (₹ crore)	72,275	63,437	13.9	70,698	2.2	
Employee expenses	42,686	37,545	13.7	40,808	4.6	
Gross Margin	29,589	25,892	14.3	29,890	-1.0	
Gross margin (%)	40.9	40.8	12 bps	42.3	-134 bps	
SG&A expenses	11,066	9,017	22.7	10,614	4.3	
EBITDA	18,523	16,875	9.8	19,276	-3.9	
EBITDA Margin (%)	25.6	26.6	-97 bps	27.3	-164 bps	
Depreciation	1,206	1,361	-11.4	1,406	-14.2	
EBIT	17,317	15,514	11.6	17,870	-3.1	
EBIT Margin (%)	24.0	24.5	-50 bps	25.3	-132 bps	For Q1 EBIT margin was down ~130 bps QoQ, primarily due to wage hike impact (-170 bps) and investments in partnerships, employees and M&A charges which was partially offset by currency tailwinds and operational efficiencies (+40 bps).
Other income (less interest)	1,295	1,465	-11.6	492	163.2	
PBT	18,612	16,979	9.6	17,404	6.9	
Tax paid	4,692	4,160	12.8	4,578	2.5	
Reported PAT	13,849	12,760	8.5	13,718	1.0	
Adjusted PAT	13,349	12,760	4.6	13,718	-2.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY27E			FY28E		
	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	31,314	30,763	-1.8	32,896	31,813	-3.3
Revenue	2,86,525	2,87,855	0.5	3,02,641	2,95,857	-2.2
EBITDA	77,384	76,521	-1.1	81,925	79,497	-3.0
EBITDA Margin (%)	27.0	26.6	-42 bps	27.1	26.9	-20 bps
PAT	54,971	56,300	2.4	58,234	56,628	-2.8
Diluted EPS (₹)	152.0	155.6	2.4	161.0	156.5	-2.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Total operating Income	2,67,021	2,87,855	2,95,857
Growth (%)	4.6	7.8	2.8
COGS (employee expenses)	1,55,641	1,69,376	1,73,964
S,G&A expenses	38,982	41,958	42,396
Total Operating Expenditure	1,94,623	2,11,334	2,16,360
EBITDA	72,398	76,521	79,497
Growth (%)	7.4	5.7	3.9
Depreciation	5,560	5,661	6,004
Other Income less interest	3,517	4,863	2,701
PBT	70,355	75,722	76,193
Total Tax	17,291	19,141	19,277
Minority Interest	244	281	288
Adj. PAT	52,820	56,300	56,628
Growth (%)	8.8	6.6	0.6
Adj. EPS (₹)	146	156	157
Reported PAT	48,294	56,300	56,628
EPS - Reported (₹)	133.5	155.6	156.5

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Profit before Tax	70,355	75,722	76,193
Add: Depreciation	5,560	5,661	6,004
(Inc)/dec in Current Assets	(4,222)	(7,453)	(2,863)
Inc/(dec) in CL and Provisions	2,012	4,828	1,854
Taxes paid	(14,384)	(19,141)	(19,277)
CF from operating activities	52,094	54,755	59,212
(Inc)/dec in Investments	(4,293)	(402)	(155)
(Inc)/dec in Fixed Assets	(4,626)	(13,195)	(13,284)
Others	(3,926)	4,863	2,701
CF from investing activities	(12,845)	(8,735)	(10,738)
Inc/(dec) in loan funds	(1,861)	-	-
Dividend paid & dividend tax	(39,437)	(41,560)	(45,928)
Others	(835)	-	-
CF from financing activities	(42,133)	(41,560)	(45,928)
Net Cash flow	(2,884)	4,460	2,546
Exchange difference	959	-	-
Opening Cash	8,342	6,417	10,877
Closing cash and Bank	6,417	10,877	13,423

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY26	FY27E	FY28E
Liabilities			
Equity Capital	362	362	362
Reserve and Surplus	1,06,878	1,21,619	1,32,320
Share Premium	0	0	0
Total Shareholders funds	1,07,240	1,21,981	1,32,682
Total debt	11,283	11,426	11,481
Other liabilities & Provisions	2,322	2,397	2,426
Deferred tax liability(net)	1,205	1,205	1,205
Minority Interest / Others	1,238	1,519	1,807
Total Liabilities	1,23,288	1,38,528	1,49,600
Assets			
Net assets & CWIP	24,900	32,434	39,714
Goodwill	9,108	9,108	9,108
Other non current assets	12,659	13,061	13,216
Debtors	57,630	62,126	63,854
Loans and Advances	2,918	3,146	3,233
Other Current Assets	34,970	37,698	38,747
Current Investments	33,770	33,770	33,770
Cash	6,417	10,877	13,423
Trade Payable	14,808	15,963	16,407
OCL & Provisions	44,276	47,731	49,057
Application of Funds	1,23,288	1,38,528	1,49,600

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY26	FY27E	FY28E
Per share data			
Adjusted EPS (Diluted)	146.0	155.6	156.5
BV per share	296.2	337.0	366.5
DPS	100.6	114.9	127.0
Cash Per Share	17.7	30.0	37.1
Operating Ratios (%)			
EBIT margins	25.0	24.6	24.8
PBT Margins	26.3	26.3	25.8
PAT Margin	19.8	19.6	19.1
Debtor days	79	79	79
Creditor days	20	20	20
Return Ratios (%)			
RoE	49.3	46.2	42.7
RoCE	57.1	54.7	50.9
RoIC	80.4	75.5	71.8
Valuation Ratios (x)			
P/E	14.3	13.4	13.3
EV / Net Sales	2.7	2.5	2.4
Market Cap / Sales	2.8	2.6	2.6
Solvency Ratios			
Debt / EBITDA	0.2	0.1	0.1
Debt / Equity	0.1	0.1	0.1
Current Ratio	1.6	1.6	1.6
Quick Ratio	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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