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AI momentum improves, but core growth remains subdued...

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

Q2FY27 performance: TCS in Q2 reported revenue of US\$7,642 mn, up 0.24% QoQ/ 2.4% YoY and ₹73,188 crore, up 1.3% QoQ / 11.2% YoY (in CC terms +0.5% QoQ /+2.8% YoY). EBIT margin stood at 24%, up ~2 bps QoQ. Adjusted PAT (after exceptional items) stood at ₹13,884 crore, up 4% QoQ/ up 18% YoY.

Investment Rationale:

• Growth remains subdued despite broad-based recovery: Q2 saw broad-based improvement across BFSI (+3.9% YoY CC), Manufacturing (+4.2% YoY CC) and Technology & Services (+4.8% YoY CC). However, **overall growth remains modest, as management noted that the demand environment continues to be selective and discretionary programmes without near-term value remain under scrutiny.** North America, the largest geography, grew only 1.5% YoY CC, indicating that a meaningful acceleration in core demand is yet to emerge while India saw a sharp 10.3% QoQ CC decline attributed to project deferrals rather than structural weakness (the deferred projects to resume in subsequent quarters & some cushion expected from BSNL deal). **Thus, we expect dollar revenue to grow at CAGR of ~2.6% over FY26-FY28E.**

• **Margin recovery likely to remain gradual:** EBIT margin remained at 24% despite currency gains and operating leverage, as higher subcontracting costs, increased bench and investments in strategic partnerships, M&A and niche talent weighed on profitability. **For H2FY27, the proposed MHP acquisition is expected to result in ~50 bps of margin dilution, depending on closure and integration timing, alongside normal furlough seasonality and continued ecosystem investments, making the path towards the earlier 25%+ exit margin target more challenging.** The long-term margin aspiration remains 26–28%, with management prioritising growth investments while seeking gradual improvement. **Accordingly, we have baked in EBIT margins of 24.1% and 24.4% in FY27E and FY28E.**

• **AI opportunity gaining scale, but monetisation remains gradual:** Annualized AI revenue crossed US\$3.1bn, growing 19.2% QoQ and exceeding 10% of revenue, highlighting healthy traction in AI-native solutions, enterprise transformation and agentic services. TCS noted that AI is increasingly embedded across transformation programmes and AI revenues are growing across verticals. It is also witnessing increasing client adoption of AI-led modernization and governance solutions. **However, management indicated that AI-related productivity/deflation has not yet been fully offset by incremental spending,** suggesting that the rising AI revenue pool may take time to translate into a meaningful acceleration in overall company growth.

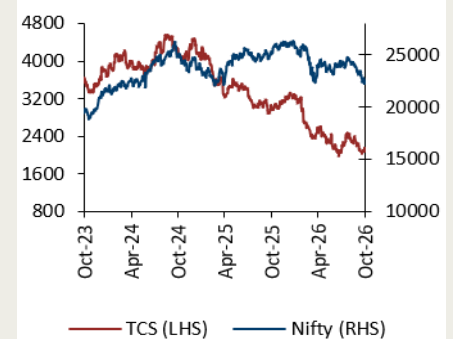
Rating and Target Price: While the AI momentum continues to remain strong, we believe growth visibility is still elusive with a long path ahead for meaningful growth recovery trajectory. **Thus, we maintain HOLD rating with target price of ₹2,050 at 13x P/E on FY28E EPS.**

**Particulars**

Particular	Amount
Market Cap (₹ Crore)	7,80,110
Total Debt (₹ Crore)	11,283
Cash & equiv. (₹ Crore)	40,187
EV (₹ Crore)	7,51,206
52-week H/L	3350 / 1976
Equity capital (₹ Crore)	362
Face value	1.0

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	71.8	71.8	71.8	71.8
FII	10.3	10.4	9.7	9.1
DII	12.7	12.9	13.4	13.5
Others	5.2	5.0	5.2	5.7

Price Chart**Key risks**

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

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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	2,91,613	2,99,934	6.0
EBITDA	63,337	67,407	72,398	9.2	75,740	79,183	4.6
EBITDA Margins (%)	26.3	26.4	27.1		26.0	26.4	
Adj. PAT	45,908	48,553	52,820	10.2	55,553	56,354	3.3
Adj. EPS (₹)	125.9	134.2	146.0		153.6	155.8	
P/E	17.0	16.1	16.2		14.0	13.8	
RoNW (%)	50.7	51.2	49.3		45.4	42.4	
RoCE (%)	60.9	60.4	57.1		53.8	50.6	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Revenue performance:** TCS in Q2 reported revenue of US\$7,642 mn, up 0.24% QoQ/2.4% YoY (in CC terms +0.5% QoQ/+2.8% YoY). In rupee terms, revenue stood at ₹73,188 crore, up 1.3% QoQ/11.2% YoY.
- **AI services revenue and partnerships:** Annualized AI services revenue reached US\$3.1 bn in Q2, up 19.2% QoQ and crossing 10% of revenue. Management highlighted increasing demand for AI-native solutions, AI-led enterprise transformation and autonomous business operations, with AI adoption expanding across verticals.
- **Geography performance:**

Exhibit 1: Geography wise growth trend

Geography	% of revenue mix	QoQ CC growth %	YoY CC growth %
Americas	50.4		
North America	48.3	0.4	1.5
Latin America	2.1	4.3	1.7
Europe	33		
UK	17.8	3.5	4.5
Continental Europe	15.2	0.4	3.3
India	5.5	-10.3	6.0
Asia Pacific	8.6	2.0	4.1
MEA	2.5	0.4	2.0

Source: Company, ICICI Direct Research

- **India and Regional Markets:** India revenue declined 10.3% QoQ but grew 6.0% YoY in CC terms, with management attributing the sequential decline to project deferrals rather than any structural weakness and expecting the deferred projects to resume in subsequent quarters. Regional Markets & Others declined 5.8% QoQ but grew 3.6% YoY in CC terms, reflecting the volatility and lumpiness of projects in these markets. **Management indicated that the BSNL deal could provide a cushion over the next couple of quarters, although regional markets are likely to remain volatile given the limited annuity-based nature of engagements.**
- **Segment performance:**

Exhibit 2: Vertical wise growth trend

Vertical	% of revenue mix	QoQ CC growth %	YoY CC growth %
BFSI	32.8	2.5	3.9
Consumer Business	14.9	-0.7	-1.0
Manufacturing	9	3.1	4.2
Life Sciences and Healthcare	10.3	0.3	0.5
Communication & Media	5.8	0.1	0.5
Technology & services	8.6	3.1	4.8
Regional markets & others	12.4	-5.8	3.6
Energy, Resources and Utilities	6.2	-0.5	5.7

Source: Company, ICICI Direct Research

- **BFSI:** BFSI was the strongest large vertical and the largest contributor to growth, increasing 2.5% QoQ and 3.9% YoY in CC terms. Growth was broad-based across banking, capital markets and insurance, supported by demand for AI, risk and regulatory modernisation, cyber resilience, data platforms and operational efficiency.
- **Consumer Business:** Consumer Business declined 0.7% QoQ and 1.0% YoY in CC terms, reflecting continued pressure amid inflation, energy costs and selective consumer spending. Travel, transportation and hospitality demand remained resilient. Management expects better Q3, it being a seasonally strong quarter for the segment.
- **Margin performance:** EBIT margin stood at 24.0%, broadly stable QoQ, as higher subcontracting costs, investments in strategic partnerships and M&A, niche talent hiring and a higher bench were partly offset by currency gains and operating leverage. **Management indicated that increased**

subcontracting and third-party expenses weighed on gross margin, while other investments were linked to SG&A. Adjusted PAT (after exceptional items) stood at ₹13,884 crore, up 4% QoQ/18% YoY.

- **TCV:** It recorded **TCV of US\$9.6 bn**, excluding the Porsche and Best Buy deals. **TCS announced a five-year strategic partnership with Porsche (5-year mega deal win of US\$ 1.45bn), alongside the proposed acquisition of Porsche's Germany-based management and IT consulting subsidiary MHP, to strengthen its AI-led mobility and engineering capabilities. It also agreed to transition Best Buy's India GCC to TCS and transform it into an AI Capability Centre.** These engagements represent strategic transformation partnerships, although the reported TCV remained below the year-ago level.
- **Demand Outlook:** Management stated that the demand environment remains selective and uneven, with discretionary programs lacking near-term value continuing to face scrutiny. However, it remains **confident about medium-term growth momentum**, supported by the pipeline, client conversations and order wins. **For H2FY27, the proposed MHP acquisition is expected to result in ~50 bps of margin dilution, depending on closure and integration timing, alongside normal furlough seasonality and continued ecosystem investments, making the path towards the earlier 25%+ exit margin target more challenging.** The long-term margin aspiration remains 26–28%, with management prioritising growth investments while seeking gradual improvement.
- **Attrition and employee addition:** TCS added 4,258 employees during the quarter, taking total headcount to 5,98,056. LTM IT services attrition declined 30 bps QoQ to 13.3%.
- **Dividend:** The company declared an interim dividend of ₹12 per share with October 14, 2026, as the record date and October 30, 2026, as the payment date.

Exhibit 3: Quarter Performance

	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments
Revenue (US\$ mn)	7,642	7,466	2.4	7,624	0.2	In CC terms revenue was up 0.5% QoQ and 2.8% YoY.
Revenue (₹ crore)	73,188	65,799	11.2	72,275	1.3	
Employee expenses	43,488	38,665	12.5	42,686	1.9	
Gross Margin	29,700	27,134	9.5	29,589	0.4	
Gross margin (%)	40.6	41.2	-66 bps	40.9	-36 bps	
SG&A expenses	10,920	9,156	19.3	11,066	-1.3	
EBITDA	18,780	17,978	4.5	18,523	1.4	
EBITDA Margin (%)	25.7	27.3	-166 bps	25.6	3 bps	
Depreciation	1,227	1,413	-13.2	1,206	1.7	
EBIT	17,553	16,565	6.0	17,317	1.4	
EBIT Margin (%)	24.0	25.2	-119 bps	24.0	2 bps	EBIT margin remained at 24% despite currency gains and operating leverage, as higher subcontracting costs, increased bench and investments in strategic partnerships, M&A and niche talent weighed on profitability. Management flagged ~50bps dilution from MHP in H2FY27 alongside furlough seasonality and ecosystem investments for H2FY27.
Other income (less interest)	1,085	638	70.1	1,295	-16.2	
PBT	18,638	17,203	8.3	17,654	5.6	
Tax paid	4,704	4,243	10.9	4,692	0.3	
Reported PAT	13,884	12,904	7.6	13,849	0.3	
Adjusted PAT	13,884	11,769	18.0	13,349	4.0	

Source: Company, ICICI Direct Research

Exhibit 4: Change in estimates

(₹ Crore)	FY27E			FY28E		
	Old	New	% Change	Old	New	% Change
Revenue (USD mn)	30,763	30,588	-0.6	31,813	31,572	-0.8
Revenue	2,87,855	2,91,613	1.3	2,95,857	2,99,934	1.4
EBITDA	76,521	75,740	-1.0	79,497	79,183	-0.4
EBITDA Margin (%)	26.6	26.0	-61 bps	26.9	26.4	-47 bps
PAT	56,300	55,553	-1.3	56,628	56,354	-0.5
Diluted EPS (₹)	155.6	153.6	-1.3	156.5	155.8	-0.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Total operating Income	2,67,021	2,91,613	2,99,934
Growth (%)	4.6	9.2	2.9
COGS (employee expenses)	1,55,641	1,72,111	1,76,661
S,G&A expenses	38,982	43,762	44,090
Total Operating Expenditure	1,94,623	2,15,873	2,20,751
EBITDA	72,398	75,740	79,183
Growth (%)	7.4	4.6	4.5
Depreciation	5,560	5,502	6,028
Other Income less interest	3,517	4,442	2,671
PBT	70,355	74,680	75,826
Total Tax	17,291	18,866	19,184
Minority Interest	244	261	288
Adj. PAT	52,820	55,553	56,354
Growth (%)	8.8	5.2	1.4
Adj. EPS (₹)	146	154	156
Reported PAT	48,294	55,553	56,354
EPS - Reported (₹)	133.5	153.6	155.8

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Profit before Tax	70,355	74,680	75,826
Add: Depreciation	5,560	5,502	6,028
(Inc)/dec in Current Assets	(4,222)	(8,797)	(2,977)
Inc/(dec) in CL and Provisions	2,012	5,699	1,928
Taxes paid	(14,384)	(18,866)	(19,184)
CF from operating activities	52,094	53,776	58,950
(Inc)/dec in Investments	(4,293)	(475)	(161)
(Inc)/dec in Fixed Assets	(4,626)	(13,237)	(13,329)
Others	(3,926)	4,442	2,671
CF from investing activities	(12,845)	(9,271)	(10,819)
Inc/(dec) in loan funds	(1,861)	-	-
Dividend paid & dividend tax	(39,437)	(40,539)	(45,621)
Others	(835)	-	-
CF from financing activities	(42,133)	(40,539)	(45,621)
Net Cash flow	(2,884)	3,966	2,510
Exchange difference	959	-	-
Opening Cash	8,342	6,417	10,383
Closing cash and Bank	6,417	10,383	12,894

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet			
	₹ crore		
(Year-end March)	FY26	FY27E	FY28E
Liabilities			
Equity Capital	362	362	362
Reserve and Surplus	1,06,878	1,21,892	1,32,625
Share Premium	0	0	0
Total Shareholders funds	1,07,240	1,22,254	1,32,987
Total debt	11,283	11,452	11,509
Other liabilities & Provisions	2,322	2,411	2,440
Deferred tax liability(net)	1,205	1,205	1,205
Minority Interest / Others	1,238	1,499	1,787
Total Liabilities	1,23,288	1,38,820	1,49,928
Assets			
Net assets & CWIP	24,900	32,635	39,936
Goodwill	9,108	9,108	9,108
Other non current assets	12,659	13,134	13,295
Debtors	57,630	62,938	64,733
Loans and Advances	2,918	3,187	3,278
Other Current Assets	34,970	38,191	39,280
Current Investments	33,770	33,770	33,770
Cash	6,417	10,383	12,894
Trade Payable	14,808	16,172	16,633
OCL & Provisions	44,276	48,354	49,733
Application of Funds	1,23,288	1,38,820	1,49,928

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios			
(Year-end March)	FY26	FY27E	FY28E
Per share data			
Adjusted EPS (Diluted)	146.0	153.6	155.8
BV per share	296.2	337.7	367.4
DPS	100.6	112.1	126.1
Cash Per Share	17.7	28.7	35.6
Operating Ratios (%)			
EBIT margins	25.0	24.1	24.4
PBT Margins	26.3	25.6	25.3
PAT Margin	19.8	19.1	18.8
Debtor days	79	79	79
Creditor days	20	20	20
Return Ratios (%)			
RoE	49.3	45.4	42.4
RoCE	57.1	53.8	50.6
RoIC	80.4	74.2	70.8
Valuation Ratios (x)			
P/E	14.7	14.0	13.8
EV / Net Sales	2.8	2.6	2.5
Market Cap / Sales	2.9	2.7	2.6
Solvency Ratios			
Debt / EBITDA	0.2	0.2	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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