

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	4,039
12 month price target (INR)	5,200
52 Week High/Low	4,592/3,592
Market cap (INR bn/USD bn)	14,613/170.2
Free float (%)	23.4
Avg. daily value traded (INR mn)	9,429.2

SHAREHOLDING PATTERN

	Sep-24	June-24	Mar-24
Promoter	71.77%	71.77%	71.77%
FII	12.66%	12.36%	12.7%
DII	10.91%	11.06%	10.67%
Pledge	0%	0%	0%

FINANCIALS

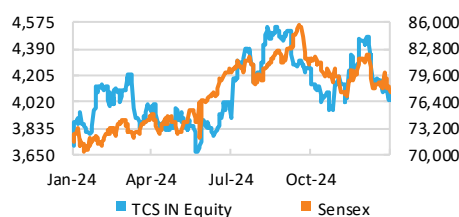
(INR bn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	2,409	2,558	2,797	3,083
EBITDA	643	685	768	855
Adjusted profit	469	494	557	632
Diluted EPS (INR)	129.5	136.4	153.9	174.7
EPS growth (%)	12.4	5.4	12.8	13.5
RoAE (%)	51.2	55.4	57.4	51.7
P/E (x)	31.2	29.6	26.2	23.1
EV/EBITDA (x)	22.9	21.5	19.1	17.1
Dividend yield (%)	1.8	3.2	2.2	2.5

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Rev (INR, bn)	2,558	2,797	-1.2%	-1.4%
EBIT	631	708	-1.4%	-2.5%
Adjusted profit	494	557	-1.8%	-4.1%
Diluted EPS (INR)	136.4	153.9	-1.8%	-4.1%

PRICE PERFORMANCE



Strong commentary; tell-tale signs of revival

TCS reported modest Q3FY25 numbers. Revenue was flat CC QoQ at USD7,539mn, slightly below our and Street's estimate of 0.4% CC QoQ growth. EBIT margin expanded 40bp QoQ to 24.5%, in line with estimates. PAT at INR123.8bn, too, was in-line with estimates. Deal flow came in strong at USD10.2bn (+18.6% QoQ/+26% YoY).

Management commentary was most positive over last two years, as it guided to higher growth in CY25 than CY24, citing early signs of revival in discretionary spends. We are trimming FY25E/26E EPS by -1.8%/-4.1% mainly on lower other income (higher dividend), as we update FY26/27 USDINR assumption to 86.5. We roll forward the valuation to 30x FY27E PE; retain 'BUY' with a TP of INR5,200 (earlier INR5,100).

Modest revenue, along expected lines; decent margin expansion

Revenue was flat CC QoQ/ +4.5% CC YoY—with all verticals declining QoQ except regional markets. Management remained upbeat on BFSI and retail, expecting both verticals to have bottomed out and to recover over next few quarters. Life sciences revival shall happen once policy clarity emerges while Manufacturing was affected by macro challenges in auto and aerospace. EBIT margins expanded 40bp QoQ to 24.5% despite furloughs seasonality partially offset by operating leverage, pyramid and efficiency measures. Management continues to maintain medium-term margin target of 26–28% while still aspiring to reach as close to 26% in Q4FY25, as possible.

Most positive commentary in two years; positive for entire industry

TCS' Q3FY25 results tick all the boxes, despite benign expectations. To begin with, deal-wins were super strong at USD10.2bn (+18.6% QoQ/+26% YoY), even without any mega deals. The weak TCV over the last two quarters had been a concern— which got partly pacified by this quarter's number. Management highlighted improved decision-making driven by shorter deal cycles. Its commentary on early signs of revival in discretionary spends leads to a bright outlook. The BSNL deal is now 70% complete and likely to conclude in the next two quarters. Management is looking to offset the revenue impact, even as it expects developed markets to do the heavy lifting in CY25. Overall, management expects CY25 growth to be higher than CY24, implying high single-digit growth in developed markets.

We view the strong deal-wins and management's efforts to offset the BSNL revenue impact as positive triggers for TCS. The revival in developed market growth and discretionary spends marks incrementally positive signs for the industry. All along, TCS's valuations remain attractive versus peers (Infosys, HCL); Maintain 'BUY/SO'.

Financials

Year to March	Q3FY25	Q3FY24	% Change	Q2FY25	% Change
Net Revenue	6,39,730	6,05,830	5.6	6,42,590	(0.4)
EBITDA	1,70,330	1,63,880	3.9	1,67,320	1.8
Adjusted Profit	1,23,800	1,20,160	3.0	1,19,090	4.0
Diluted EPS (INR)	34.2	33.2	3.0	32.9	4.0

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	24,08,930	25,57,648	27,97,366	30,83,382
Cost of revenues	13,97,750	15,13,186	16,43,918	18,01,804
Gross Profit	10,11,180	10,44,462	11,53,448	12,81,578
SG&A	3,68,230	3,59,558	3,85,898	4,26,414
EBITDA	6,42,950	6,84,904	7,67,550	8,55,164
Depreciation	49,840	53,704	59,395	58,308
EBIT	5,93,110	6,31,200	7,08,154	7,96,856
Add: Other income	36,440	33,002	38,251	49,650
Profit before tax	6,29,550	6,64,201	7,46,406	8,46,507
Prov for tax	1,58,980	1,67,978	1,86,601	2,11,627
Less: Other adj	0	0	0	0
Reported profit	4,68,660	4,93,834	5,57,244	6,32,320
Less: Excp.item (net)	0	0	0	0
Adjusted profit	4,68,660	4,93,834	5,57,244	6,32,320
Diluted shares o/s	3,620	3,620	3,620	3,620
Adjusted diluted EPS	129.5	136.4	153.9	174.7
DPS (INR)	73.0	128.0	90.0	99.0
Tax rate (%)	25.3	25.3	25.0	25.0

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Employees cost	58.1	57.3	55.6	54.5
Other cost	15.3	15.9	16.9	17.7
Depreciation (% of rev)	2.1	2.1	2.1	1.9
EBIT margin (%)	24.6	24.7	25.3	25.8
Net profit margin (%)	19.5	19.3	19.9	20.5
Revenue growth (% YoY)	6.8	6.2	9.4	10.2
EBIT growth (% YoY)	9.4	6.4	12.2	12.5
Adj. profit growth (%)	11.2	5.4	12.8	13.5

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	6.2
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	83.0	84.4	86.5	86.5
USD revenue (USD mn)	29,080.0	30,262.8	32,339.5	35,646.0
YoY growth (%)	4.1	4.1	6.9	10.2
CC YoY growth (%)	3.4	4.7	6.9	10.2
Tax rate as % of PBT	25.3	25.3	25.0	25.0
Capex (INR mn)	65,180.0	59,250.0	56,000.0	56,000.0

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	31.2	29.6	26.2	23.1
Price/BV (x)	15.8	17.1	13.4	10.7
EV/EBITDA (x)	22.9	21.5	19.1	17.1
Dividend yield (%)	1.8	3.2	2.2	2.5

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	3,620	3,620	3,620	3,620
Reserves	9,22,500	8,52,073	10,83,517	13,57,457
Shareholders funds	9,26,120	8,55,693	10,87,137	13,61,077
Minority interest	8,300	9,890	12,450	15,010
Borrowings	0	0	0	0
Trade payables	4,65,860	5,07,030	5,63,420	6,18,758
Other liabs & prov	0	0	0	0
Total liabilities	14,85,720	14,69,993	17,71,970	21,14,723
Net block	1,57,230	1,62,776	1,59,380	1,57,072
Intangible assets	0	0	0	0
Capital WIP	0	0	0	0
Total fixed assets	1,57,230	1,62,776	1,59,380	1,57,072
Non current inv	3,17,620	2,80,260	4,40,260	6,00,260
Cash/cash equivalent	90,160	74,607	1,25,616	1,87,652
Sundry debtors	4,45,610	4,62,442	5,17,447	5,69,278
Loans & advances	0	0	0	0
Other assets	2,80,690	2,98,809	3,34,350	3,67,841
Total assets	14,85,720	14,69,993	17,71,970	21,14,723

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	4,68,660	4,93,834	5,57,244	6,32,320
Add: Depreciation	49,840	53,704	59,395	58,308
Interest (net of tax)	0	0	0	0
Others	1,910	2,390	2,560	2,560
Less: Changes in WC	(42,100)	21,469	(26,390)	(56,773)
Operating cash flow	4,78,310	5,71,397	5,92,810	6,36,415
Less: Capex	(65,180)	(59,250)	(56,000)	(56,000)
Free cash flow	4,13,130	5,12,147	5,36,810	5,80,415

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	51.2	55.4	57.4	51.7
RoCE (%)	51.0	55.1	57.0	51.3
Div Payout Ratio(%)	64	61	54	47
Working cap/Sales (%)	10.8	9.9	10.3	10.3
Receivable days	65	65	64	64
Asset Turnover Ratio	0.8	0.9	0.9	0.8
Current Ratio	1.8	1.6	1.7	1.8
Net debt/equity (x)	(0.1)	(0.1)	(0.1)	(0.1)

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	12.4	5.4	12.8	13.5
RoE (%)	51.2	55.4	57.4	51.7
EBITDA growth (%)	8.5	6.5	12.1	11.4
Payout ratio (%)	64.0	60.8	53.8	47.5

Q3FY25 earnings call highlights

- **Management expect CY25 to be better than CY24.** Management is looking to backfill India revenue (post completion of BSNL deal), but next year growth shall be driven by developed markets.
- **Demand environment:** Management expects client budget to remain similar to CY24 with positive bias and saw some pickup in discretionary spends. **Encouraging signs** are there **of an increase in investment in IT** and continue to see demand in growth market. **Decision cycles are shortening and deal pipeline looks solid.** Seeing signs of revival in spends and strong TCV wins gives confidence on better growth in FY26.
- Management **expects growth in most vertical in FY26.**
- **BFSI** grew 0.9% CC YoY. Headwinds shall continue due to unresolved geopolitical issues. BFSI North America has grown positively with large accounts in North America contributing to growth. We expect the segment to grow in coming quarters.
- Management is seeing early signs of a **revival in Retail** – segment has bottomed out.
- Management remains positive on a revival in spends in the **hi-tech industry** while waiting for policy clarity in Life science, expect revival in spends after clarity emerges.
- **Manufacturing:** grew 0.4%. Saw softness in Q3 due to macro and industry specific issues in auto and aerospace. Saw large deals during the quarter and see a strong pipeline driven by investments in smart manufacturing, SDV and Gen AI.
- **Deal-wins:** TCV at USD10.2bn, 19% QoQ, growth across industries, despite no mega deals. It does not include BSNL contribution. **Shortening of deal cycles shows improvement in decision-making.**
- Deal-wins in NA were USD5.8bn, BFSI was USD3.2bn and Retail was USD1.3bn. Reported strong deal-wins this quarter with strong pipeline.
- **BSNL deal:** Management highlighted 70% completion of the BSNL deal, which should start tapering off from Q4. Management is trying to look at multiple opportunity to replace this revenue and quite confident to manage the impact.
- **Margins:** EBIT margin improved 40bp despite furloughs seasonality driven by operating leverage, pyramid and efficiency measures. Increase in third party costs may have an impact on margins in the coming quarters, which shall be offset by a lower revenue from BSNL deal and product mix. **Continues to target 26–28% of margin range and still aspiring to exit FY25 with 26% margins.**
- **Gen AI:** Gen AI and Cloud continue to see strong growth. Customer are focused on cost efficiency and are interested in AI, Gen AI and other cutting edge tech. Have not seen any impact on pricing of existing projects from Gen AI and expect AI to be net positive rather than net negative demand contributor.
- **Headcount:** added ~11k in H1FY25, headcount declined in Q3 due to seasonality and not due to uncertain demand environment.

Exhibit 1: Financial snapshot

Year to March	3QFY25	2QFY25	% Change	3QFY24	% Change	FY24	FY25E	FY26E	FY27E
Total revenues	6,39,730	6,42,590	(0.4)	6,05,830	5.6	24,08,930	25,57,648	27,97,366	30,83,382
Cost of revenues	3,80,610	3,87,340	(1.7)	3,49,200	9.0	13,97,750	15,13,186	16,43,918	18,01,804
Gross profit	2,59,120	2,55,250	1.5	2,56,630	1.0	10,11,180	10,44,462	11,53,448	12,81,578
SG&A	88,790	87,930	1.0	92,750	(4.3)	3,68,230	3,59,558	3,85,898	4,26,414
EBITDA	1,70,330	1,67,320	1.8	1,63,880	3.9	6,42,950	6,84,904	7,67,550	8,55,164
Depreciation & amortization	13,760	12,670	8.6	12,330	11.6	49,840	53,704	59,395	58,308
EBIT	1,56,570	1,54,650	1.2	1,51,550	3.3	5,93,110	6,31,200	7,08,154	7,96,856
Other income	10,090	5,670	78.0	6,320	59.7	36,440	33,001	38,251	49,650
PBT	1,66,660	1,60,320	4.0	1,57,870	5.6	6,29,550	6,64,201	7,46,406	8,46,507
Tax	42,220	40,770	3.6	37,320	13.1	1,58,980	1,67,978	1,86,601	2,11,627
Minority interest	640	460	39.1	390	64.1	1,910	2,390	2,560	2,560
Reported profit	1,23,800	1,19,090	4.0	1,20,160	3.0	4,68,660	4,93,833	5,57,244	6,32,320
Adjusted profit	1,23,800	1,19,090	4.0	110,580	12.0	4,68,660	4,93,833	5,57,244	6,32,320
Diluted shares (mn)	3,620	3,620	0.0	3,651	(0.9)	3,660	3,620	3,620	3,620
EPS (INR) diluted	34.2	32.9	4.0	33.2	3.0	129.5	136.4	153.9	174.7
as % of net revenues									
Gross profit	40.5	39.7		42.4		42.0	40.8	41.2	41.6
SG&A	13.9	13.7		15.3		15.3	14.1	13.8	13.8
EBITDA	26.6	26.0		27.1		26.7	26.8	27.4	27.7
Adjusted profit	19.4	18.5		18.3		19.5	19.3	19.9	20.5
Reported profit	19.4	18.5		19.8		19.5	19.3	19.9	20.5
Tax rate	25.3	25.4		23.6		25.3	25.3	25.0	25.0

Source: Company, Nuvama Research

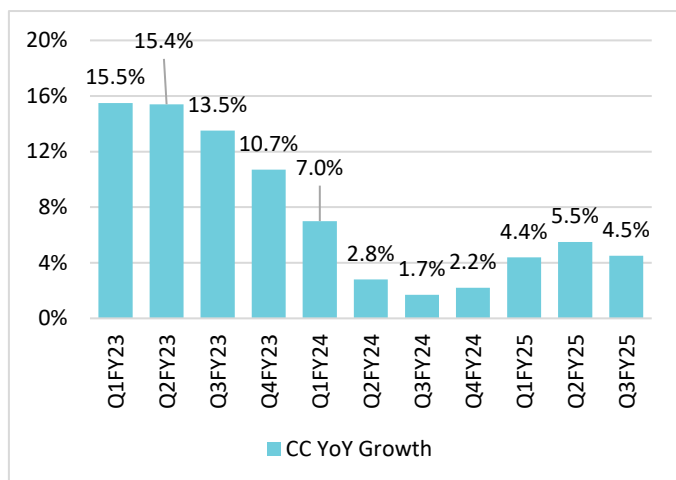
Exhibit 2: Revenue growth (QoQ) by vertical and geography

Segmental QoQ growth %	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Verticals									
BFSI	1.3%	1.1%	-0.8%	0.1%	-1.8%	-0.1%	0.6%	1.9%	-2.7%
Retail & CPG	2.2%	1.7%	1.1%	-1.5%	-0.3%	1.1%	0.0%	0.2%	-0.4%
Communication & Media	1.5%	0.3%	-1.0%	-1.6%	-1.9%	-0.4%	-4.2%	-2.7%	-3.4%
Manufacturing	2.9%	1.7%	1.7%	2.2%	2.2%	3.5%	1.9%	-0.1%	-4.0%
Lifesciences & Healthcare	3.8%	2.6%	1.4%	-1.1%	1.0%	1.1%	2.9%	-3.4%	-4.5%
Energy and Utilities	7.0%	5.6%	2.3%	1.6%	2.8%	-0.6%	1.9%	4.0%	-3.4%
Technology & Services	1.7%	0.6%	-1.8%	-1.4%	-1.4%	-1.3%	0.7%	0.9%	-1.7%
Regional Markets and Others	8.0%	2.7%	3.3%	0.7%	12.9%	6.1%	10.6%	13.1%	3.4%
Geography									
North America	1.7%	-0.8%	-0.3%	-0.8%	-1.2%	-0.1%	0.9%	-1.7%	-1.5%
Latin America	8.9%	1.7%	11.6%	-0.2%	6.0%	-3.7%	-3.2%	-3.2%	3.8%
UK	5.7%	7.2%	4.9%	0.4%	0.4%	3.6%	2.5%	2.8%	-4.0%
Continental Europe	5.0%	3.8%	-0.9%	-0.2%	1.7%	-1.6%	0.5%	3.6%	-6.4%
India	2.9%	-0.3%	-1.6%	-0.2%	25.7%	11.1%	14.1%	21.3%	8.2%
APAC	1.6%	3.0%	-2.1%	-0.2%	1.0%	1.1%	1.9%	4.8%	-4.2%
MEA	-2.5%	13.0%	0.4%	9.8%	-8.2%	6.2%	-2.9%	7.3%	7.7%

Source: Company, Nuvama Research

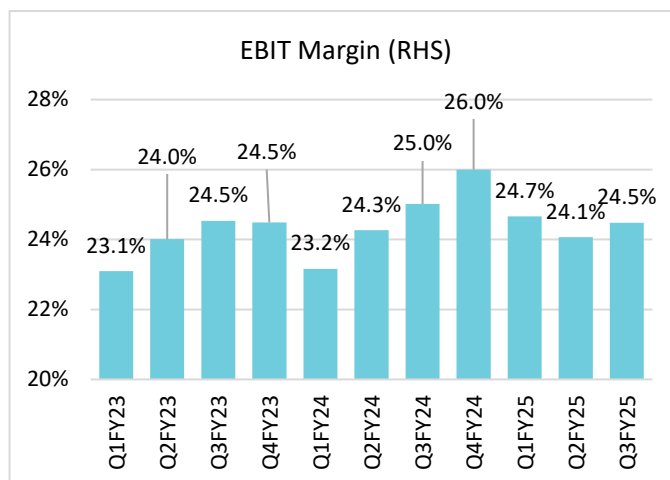
Key charts

Exhibit 3: Revenue growth in CC YoY terms



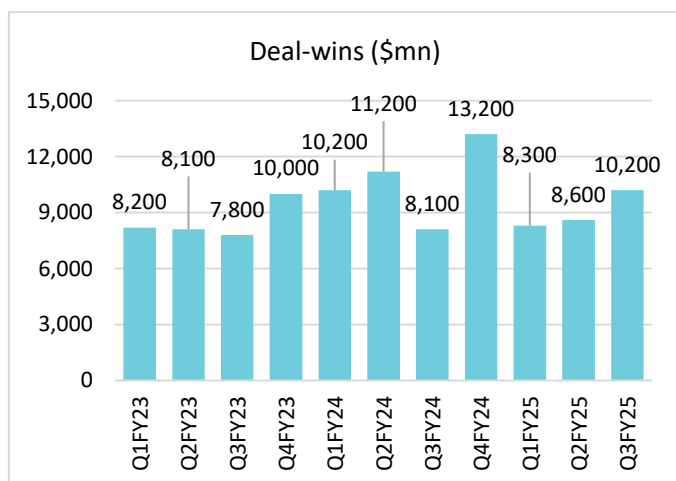
Source: Company, Nuvama Research

Exhibit 4: EBIT margins



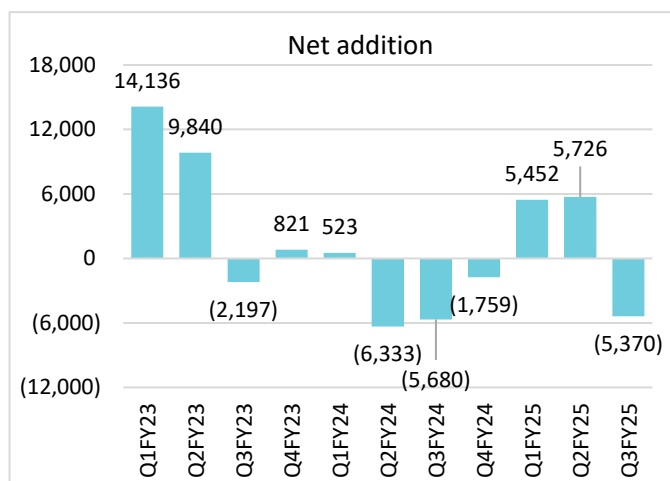
Source: Company, Nuvama Research

Exhibit 5: Deal-wins (TCV, USD mn)



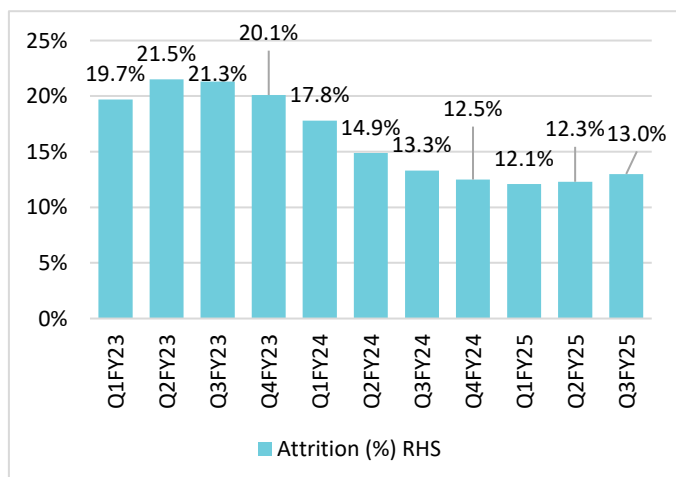
Source: Company, Nuvama Research

Exhibit 6: Net headcount addition QoQ



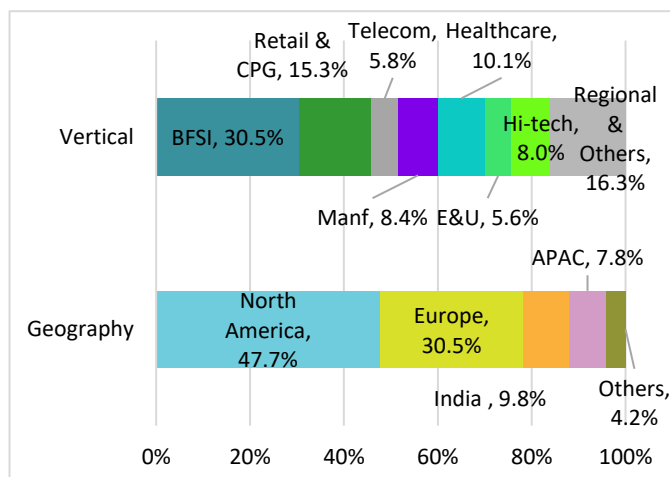
Source: Company, Nuvama Research

Exhibit 7: Attrition



Source: Company, Nuvama Research

Exhibit 8: Revenue breakdown by vertical and geography



Source: Company, Nuvama Research

Company description

Established in 1968, TCS is one of India's largest and oldest IT companies. It caters to a range of industries such as BFSI, manufacturing, telecommunications, retail, and transportation.

With a presence in 50-plus countries, TCS boasts a large and diversified client base. The company offers a consulting-led and cognitive-powered integrated portfolio of business, technology and engineering services and solutions. It has been partnering with many of the world's largest businesses in their transformation journeys for over 50 years.

Investment theme

As India's largest and oldest IT services firm, TCS is well positioned to benefit from growing demand for offshore IT services. Given its greater experience than peers in implementing large, complex, and mission-critical projects, the company is a serious contender for large deals.

Moreover, it has a global presence, deep domain expertise in various industries and offerings in digital transformation services, cloud, cognitive business operations, etc. A portfolio of turnkey services offerings, traction in emerging markets, ability to roll up, improving sales and marketing prowess, and willingness to take multiple big bets (different go-to-market models) are among the key drivers that should help TCS sustain its hi-growth trajectory in the long-run.

Key risks

The key risks to our investment theme include: i) recession in the US, the overriding market for Indian IT services, and a prolonged slowdown in Europe; ii) sharp cross-currency movements and the INR's appreciation against the USD, the EUR and the GBP; iii) pricing pressure; and iv) attrition and retention dynamics.

Additional Data

Management

CEO	K Krithivasan
CFO	Samir Seksaria
COO	G Subramaniam
Other	
Auditor	B S R & Co. LLP

Holdings – Top 10*

	% Holding		% Holding
Tata Sons	71.74	FMR LLC	0.68
Life Insurance	4.86	JP Morgan Chase	0.43
SBI Funds Manag	1.37	UTI Asset Manag	0.42
Vanguard group	1.16	ICICI Prudentia	0.39
BlackRock Inc	1.02	Invesco Ltd	0.34

*Latest public data

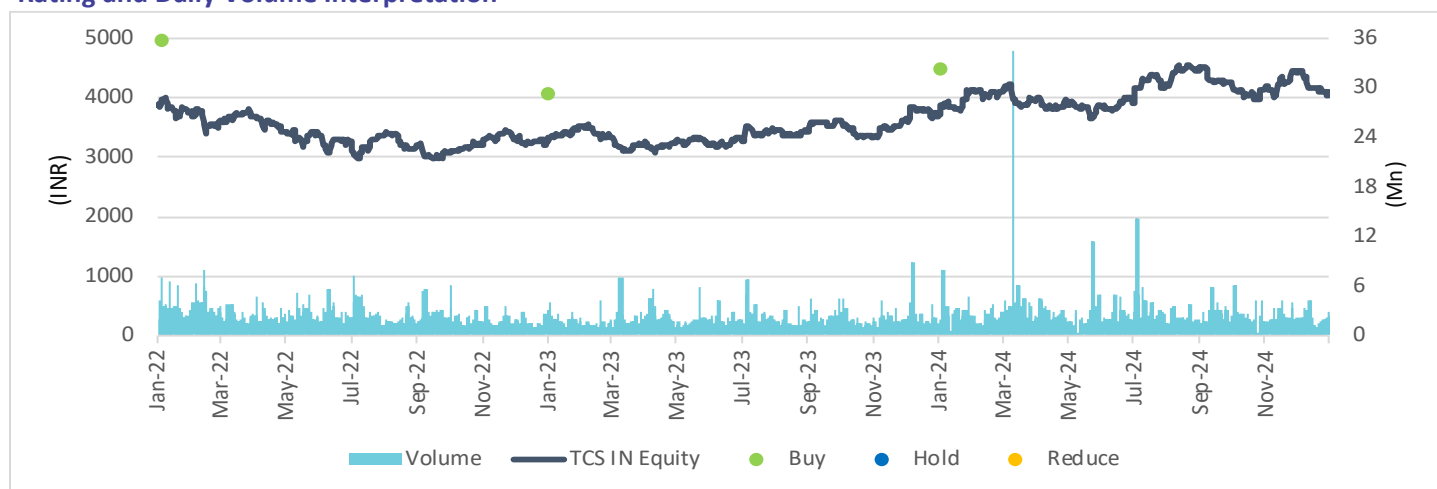
Recent Company Research

Date	Title	Price	Reco
10-Oct-24	Stable quarter, marred by blips; <i>Result Update</i>	4227	Buy
10-Aug-24	All set to ride the next tech cycle; <i>Nuvama Flash</i>	4228	Buy
11-Jul-24	Solid start to the turnaround year; <i>Result Update</i>	3923	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
05-Jan-25	IT	Seasonally soft; recovery on track ; <i>Sector Update</i>
19-Dec-24	IT	Accenture: Sign of things to come; <i>Sector Update</i>
27-Nov-24	Wipro	Wipro (WPRO IN, INR 582, upgrade to BUY); <i>Company Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	226
Hold	<15% and >-5%	63
Reduce	<-5%	26

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