

HOLD**SUHANI ADILABADKAR RESEARCH REPORT**6th February, 2025**Tata Consultancy Services****QUARTERLY OUTLOOK & RECOMMENDATION**

Tata Consultancy Services (TCS) reported stable December Quarter 2024 results. Revenue stood at Rs 63,9730 million in Q3FY25 compared to Rs 60,5830 million same period previous year. Earnings before interest, tax, depreciation and amortization (EBITDA) margin was reported at 24.5% in Q3FY25 compared to 25% in the same period previous year. Margins were impacted by furloughs and seasonality but improved 40 basis points (bps) QoQ in Q3FY25. In dollar terms, revenue stood at \$ 7,539 million with a YoY growth of 4.5% in Q3FY25 in constant currency. Net profit for Q3FY25 stood at Rs 12,4440 million, up 12% YoY.

The IT major sees early signs of revival and improvement in discretionary spend by clients. According to the management, improved decision making and reduction in deal cycle tenure indicate favourable business environment in the coming quarters. Tata Consultancy Services reported total contract value (TCV) of \$ 10.2 billion in December Quarter 2024, a rise of 26% YoY. TCV or order book indicates growth potential in the near future. The banking financial services and insurance (BFSI) TCV stood at \$3.2 billion and consumer business group TCV was at \$1.3 billion in Q3FY25. North America reported TCV of \$5.9 billion in December Quarter 2024.

North America, largest market with 50% revenue contribution reported 2.3% YoY revenue fall followed by Continental Europe with a decline of 1.5% YoY. UK maintained its positive streak with 4.1% YoY revenue growth and Asia Pacific came in at 5.8% YoY growth in Q3FY25. India remained the strongest performing market with 70.2% YoY revenue growth and MEA came in at 15% YoY growth. India revenue growth is driven by BSNL project which is expected to taper off from Q4FY25 though extending till Q1-Q2FY26. TCS is rolling out 4G telecom infrastructure across India for BSNL. The company has completed 70% of BSNL deal. The management is confident of replacing India revenue with strong international business revenue growth in the coming quarters.

Banking Financial Services and Insurance (BFSI) continued with its positive momentum with 0.9% YoY revenue growth. Consumer Business Group revenue rose 1.1% YoY and Life Sciences Health Care revenue declined 4.3% YoY in constant currency in Q3FY25. Manufacturing revenue fell 0.4% YoY and Technology & Services revenue rose YoY at the same rate. Communication and Media revenue growth declined 10.6% YoY, Energy Resources and Utilities and Regional Markets revenue growth rose 3.4% and 40.9% YoY respectively in Q3FY25. We recommend HOLD with a target price of Rs. 4,395 with PE multiple of 29.64 x FY25E & 26.35 x FY26E.

Q3FY25**CMP**

Rs 4,082.70

TARGET

Rs 4,395.00

INDUSTRY

Computers - Software & Consulting

SCRIP CODE

532540

FACE VALUE

1.00

MARKET CAP

(In Rs Million)

14779374

52 WEEK HIGH/LOW

Rs 4,585.90/Rs 3,593.30

SHAREHOLDING PATTERN (%)**PROMOTER**

71.77

PUBLIC

28.23

OTHERS

-

TOTAL

100.00

In Rs Million**Q3FY25****Q3FY24****CHN%****REVENUE**

639730

605830

5.6%

PAT

124440

110970

12%

EBDITA

182770

172500

6.0%

EPS

34.21

30.29

12%

In Rs Million**FY24A****FY25E****FY26E****REVENUE**

2408930

2562254

2767234

PAT

460990

498661

560986

EBDITA

687180

727003

804806

EPS

125.88

137.75

154.97

PE

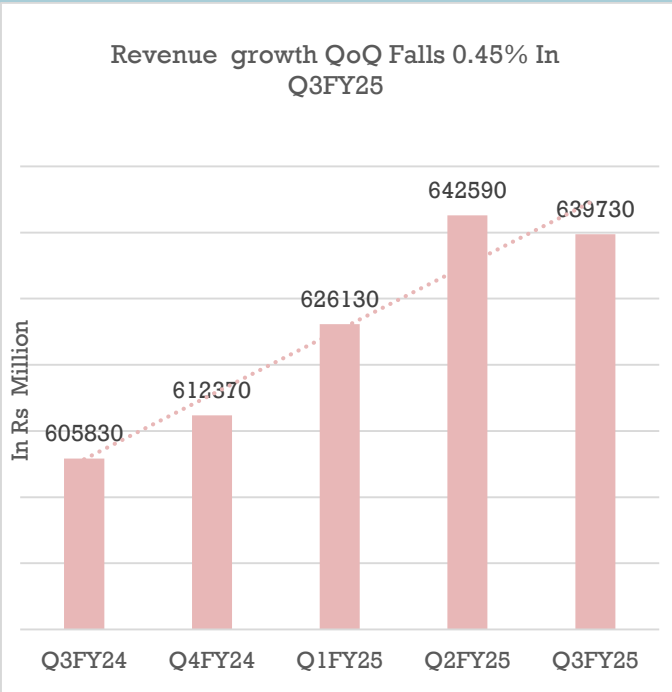
32.43

29.64

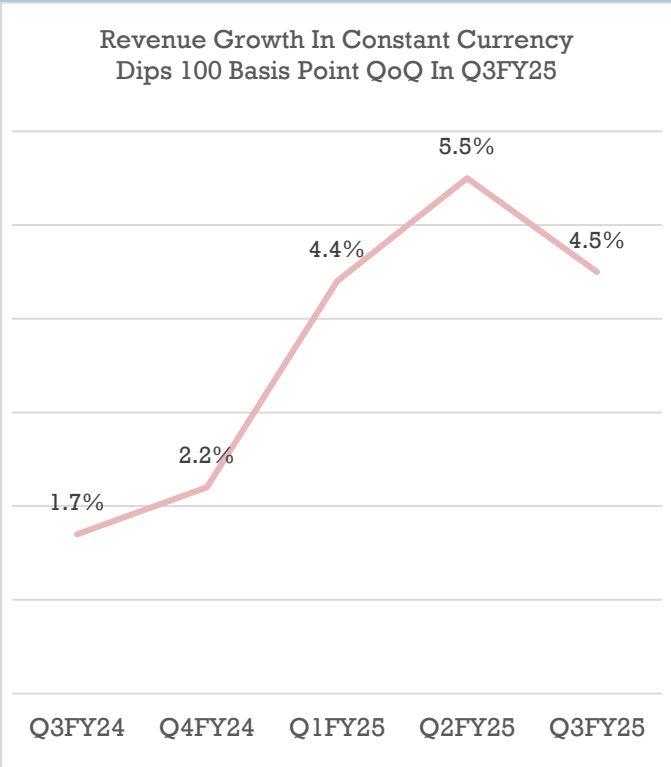
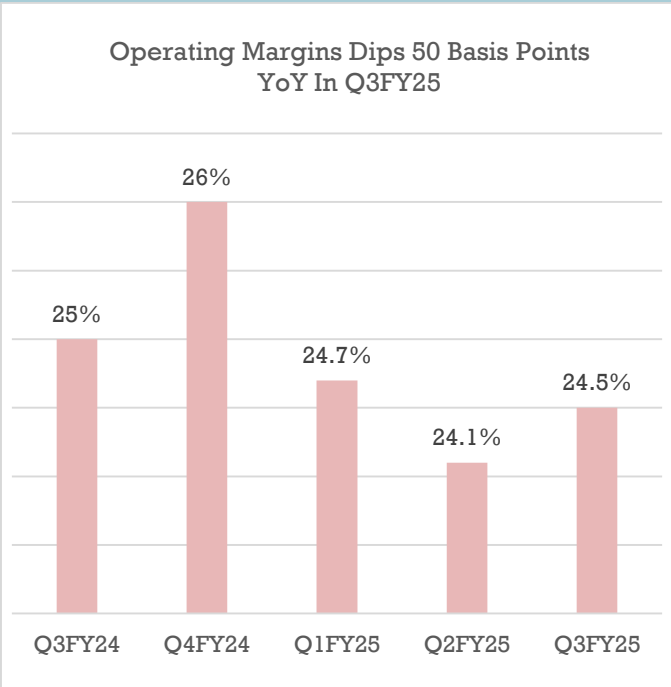
26.35

TCS V/S S&P BSE SENSEX

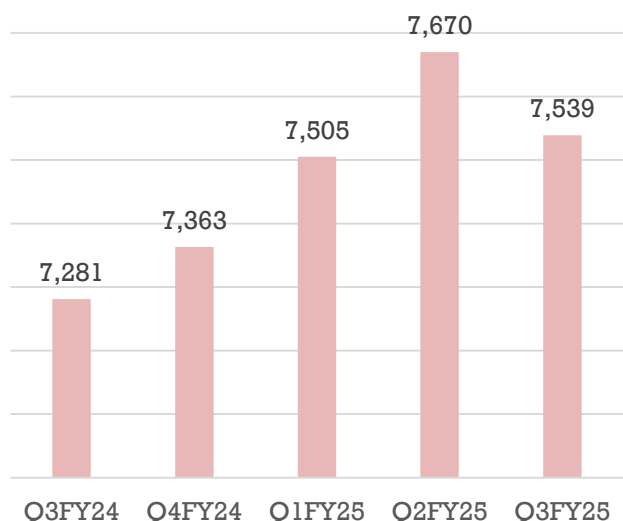
Early Sign of Revival Visible, Deal Cycle Reduction Above \$ 20 Million Category



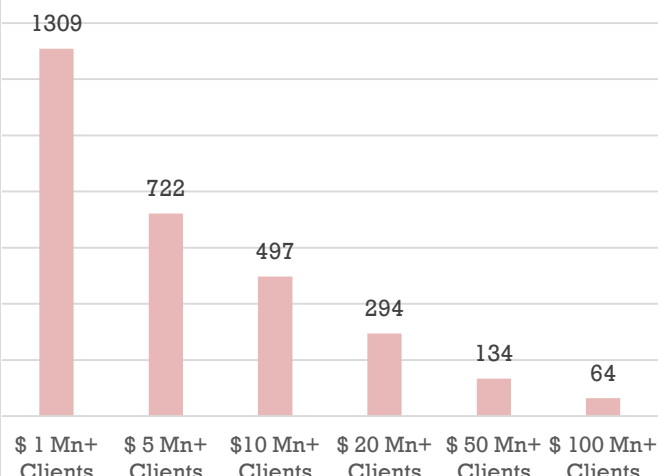
Customer priorities continue to remain centered around cost optimization and business transformation. According to the management, GenAI, Artificial Intelligence (AI) and cloud services continue to see significant growth for TCS in Q3FY25. Clients are investing in agentic AI adoption, building robust data foundation, and taking a value chain-based approach to AI and GenAI transformation. The management is seeing early signs of revival in discretionary spend in BFSI and Retail. The IT bell-weather expects client IT budgets to remain similar in CY '25 but with a positive bias. In December Quarter 2024, the management observed deal cycle reduction for deals above \$20 million. While return of discretionary spend and deal cycle reduction is positive news, new US administration with restrictive H-1B visas regulations remains an underlying risk. The US Federal Reserve held interest rates in January 2025 with inflation rate still high (2.9%) and resilient labor market. In case the Trump administration pushes for a rate cut, it will be favorable for the IT sector, as companies across various sectors will be ready to borrow for increasing their capital expenditure (capex) and other discretionary spend.



Dollar Revenue Dips 1.7% QoQ In Q3FY25

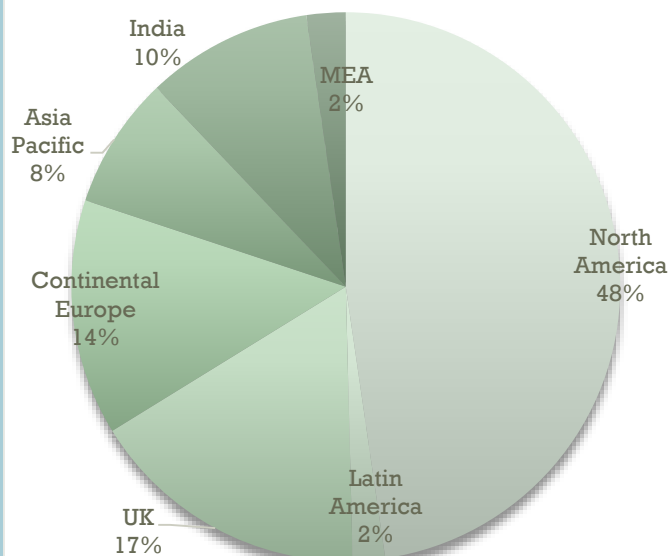


Number Of Clients In December Quarter 2024

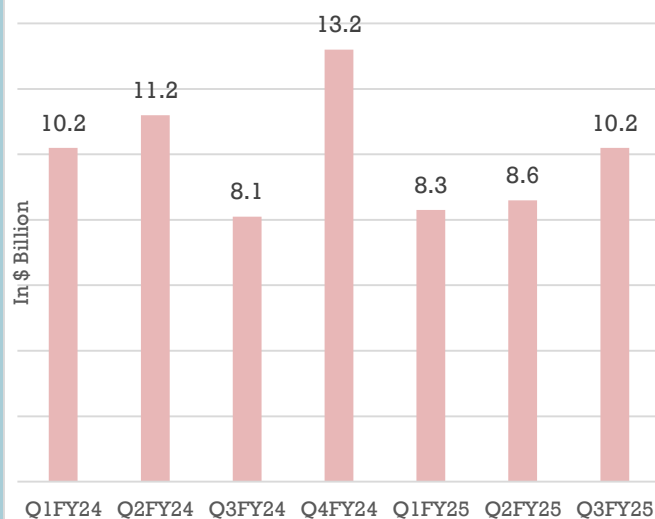


Manufacturing Growth Turns Positive, BSNL-India Revenue To Taper Off

Revenue Geographic Mix In Q3FY25



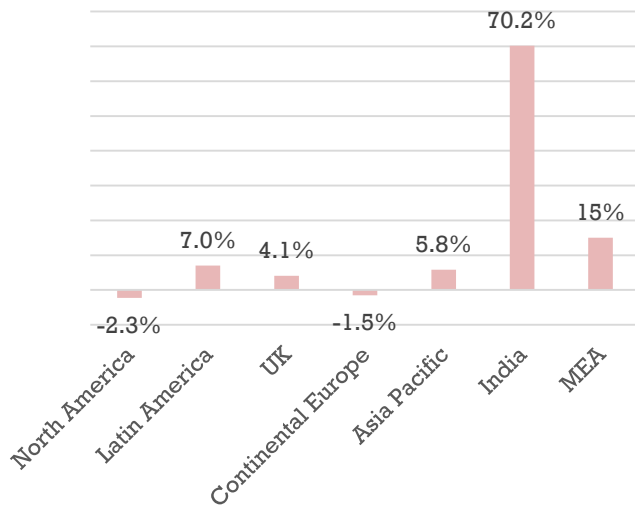
Tata Consultancy Services TCV Rises 26% YoY in Q3FY25



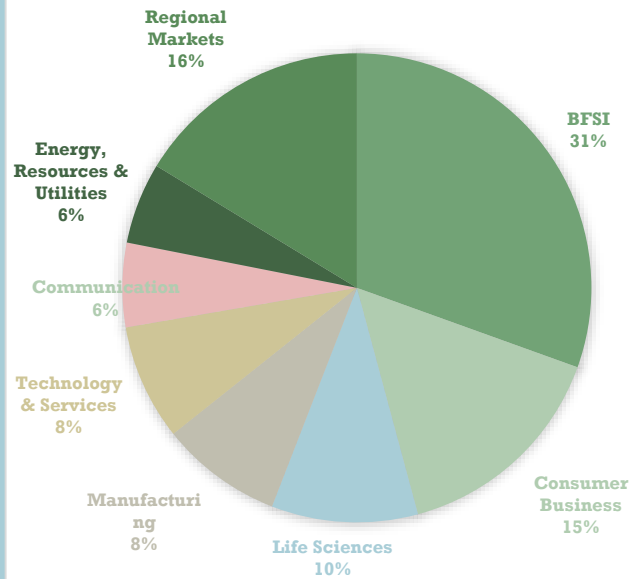
Higher discretionary spend will be favourable for all verticals especially BFSI, retail and communications. In communications, companies are not going in for capex due to higher cost of capital. Manufacturing revenue growth has turned positive in Q3FY25 but is still muted due to a combination of macro and industry-specific issues in auto and aerospace. According to the management, there were good number of large deal wins during the quarter for manufacturing vertical. In life Sciences & Healthcare, the client-specific challenges called out by the management in Q2FY25 have largely stabilized. But the industry awaits more policy clarity in the US for discretionary spend to return. According to the management, manufacturing and Life Sciences and Healthcare verticals are expected to witness growth in the medium term as near-term challenges have bottomed out in Q3FY25. The company is also positive on technology and hitech industry which is expected to increase its spend in the coming year.

India Strong Revenue Growth To Taper Off From Q4FY25

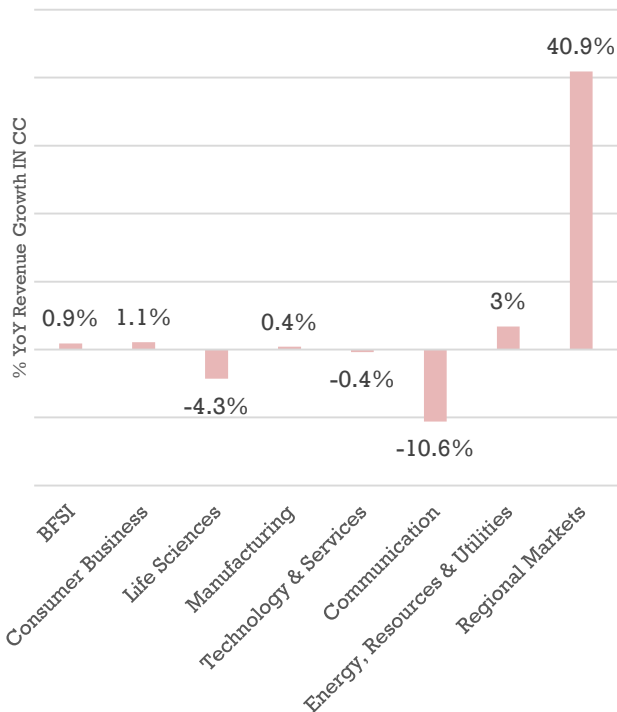
% YoY Growth In CC



Revenue Vertical Mix in Q3FY25



BFSI & Consumer Business Maintain Growth Momentum In Q3FY25



North America and Continental Europe reported fall in revenue YoY growth in Q3FY25. The company is seeing revival in North America with large accounts in BFSI contributing to growth. Revenue growth was led by India, UK and MEA geographic regions in Q3FY25. India revenue growth was driven by BSNL deal which is expected to taper off from Q4FY25. The management is confident that India revenue base will be replaced by new deals both domestically and internationally. While the completion of BSNL deal will impact revenues, it will be a tailwind for TCS margin profile. Margins will improve with the reduction of third-party costs on account of BSNL business. BSNL has floated a request for proposal (RFP) for 5G upgrade. According to the management, with the successful execution on the 4G opportunity, TCS qualifies and will participate in the new RFP. TCS Operating margin aspirational band remains 26-28%. The management is striving to get close to the guiding band. With the easing of inflation, fall in unemployment numbers, stable government and strengthening of discretionary demand in North America which contributes 48% of TCS revenue basket, the management is positive that CY'25 will be a better year than CY'24.

Vertical YoY Growth (%) CC	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
BFSI	0.90%	0.10%	-0.90%	-3.20%	-3.00%	-0.50%
Consumer Business	1.10%	0.10%	-0.30%	-0.30%	-0.30%	1.00%
Life Sciences & Healthcare	-4.30%	0.10%	4.00%	1.70%	3.10%	5.00%
Technology & Services	-0.40%	-1.90%	-3.90%	-5.60%	-5.00%	-2.20%
Manufacturing	0.40%	5.30%	9.40%	9.70%	7.00%	5.80%
Communication	-10.60%	-10.30%	-7.40%	-5.50%	-4.90%	-2.10%
Energy, Resources & Utilities	3.40%	7.00%	5.70%	7.30%	11.80%	14.80%
Regional Markets	40.90%	50.40%	37.70%	26.00%	19.20%	14.30%

% YoY Growth CC	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
North America	-2.30%	-2.10%	-1.1%	-2.3%	-3.00%	0.10%
Latin America	7.00%	6.80%	6.3%	9.8%	13.2%	13.10%
UK	4.10%	4.60%	6.00%	6.2%	8.10%	10.70%
Continental Europe	-1.50%	1.80%	0.90%	-2%	0.50%	1.30%
Asia Pacific	5.80%	7.50%	7.60%	5.2%	3.90%	4.10%
India	70.20%	95.20%	61.8%	37.9%	23.4%	3.90%
MEA	15.00%	7.90%	8.5%	11%	16%	15.90%

Expenditure Mix (Rs. In Million)	Q3FY25	Q2FY25	CGH%	Q2FY25	Q1FY25	CHG %	Q1FY25	Q4FY24	CHG %	Q4FY24	Q3FY24	CHG %
Employee Benefit Expense	359560	366540	-1.9%	366540	364160	1%	364160	351380	3.6%	351380	347220	1.2%
Cost Of Equipment and Software Licenses	35190	32300	8.9%	32300	21510	50%	21510	15610	37.8%	15610	11730	33.1%
Finance Costs	2340	1620	44.4%	1620	1730	-6%	1730	2260	-23.5%	2260	2300	-1.7%
Depreciation	13770	12660	8.8%	12660	12200	4%	12200	12460	-2.1%	12460	12330	1.1%
Other Expenses	74640	76440	-2.4%	76440	73840	4%	73840	73740	0.1%	73740	83000	-11.2%

Corporate Profile

Tata Consultancy Services is an IT services, consulting and business solutions organization that has been partnering with many of the world's largest businesses in their transformation journeys for over 56 years. Its consulting-led, cognitive powered, portfolio of business, technology and engineering services and solutions is delivered through its unique Location Independent Agile™ delivery model, recognized as a benchmark of excellence in software development. A part of the Tata group, India's largest multinational business group, TCS has over 601,000 of the world's best-trained consultants in 55 countries. The company generated consolidated revenues of \$29 billion in the fiscal year ended March 31, 2024, and is listed on the BSE and the NSE in India

QUARTERLY PROFIT & LOSS STATEMENT OF TATA CONSULTANCY SERVICES LTD FROM 30th June 2024 To 31st March 2025E

VALUE	30-June-24	30-Sept-24	31-Dec-24	31-March-25E
Rs. In Million	3 months	3 months	3 months	3 months
INCOME FROM OPERATIONS	626130	642590	639730	653804
OTHER INCOME	9620	7290	12430	13673
TOTAL INCOME	635750	649880	652160	667477
EXPENDITURE	-459510	-475280	-469390	-474084
EBDITA	176240	174600	182770	193393
DEPRECIATION	-12200	-12660	-13770	-14321
PROFIT BEFORE INTEREST & TAX	164040	161940	169000	179072
INTEREST	-1730	-1620	-2340	-2387
EXCEPTIONAL ITEM	0.00	0.00	0.00	0.00
PROFIT BEFORE TAX	162310	160320	166660	176686
TAX	-41260	-40770	-42220	-43064
PROFIT AFTER TAX	121050	119550	124440	133621
EQUITY CAPITAL	3620	3620	3620	3620
FACE VALUE	1.00	1.00	1.00	1.00
EPS	33.28	32.92	34.21	36.91

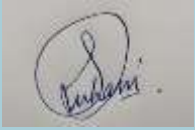
ANNUAL PROFIT & LOSS STATEMENT OF TATA CONSULTANCY SERVICES LTD FROM 2022 TO 2026E					
VALUE	31- Mar-22	31- Mar-23	31- Mar-24	31-Mar-25E	31-Mar 26E
Rs. In Million	12 months	12 months	12 months	12 months	12 months
INCOME FROM OPERATIONS	1917540	2254580	2408930	2562254	2767234
OTHER INCOME	40180	34490	44220	43013	47314
TOTAL INCOME	1957720	2289070	2453150	2605267	2814549
EXPENDITURE	-1428406	-1661990	-1765970	-1878264	-2009742
EBDITA	529314	627080	687180	727003	804806
DEPRECIATION	-46040	-50220	-49850	-52951	-55598
PROFIT BEFORE INTEREST & TAX	524710	576860	637330	674052	749208
INTEREST	-7840	-7790	-7780	-8077	-8359
EXCEPTIONAL ITEM	0	0	-9580	0	0
PROFIT BEFORE TAX	516870	569070	619970	665976	740848
TAX	-132380	-146040	-158980	-167314	-179863
PROFIT AFTER TAX	384490	423030	460990	498661	560986
EQUITY CAPITAL	3660	3660	3620	3620	3620
RESERVES	887730	900580	901270	1037497	1124572
FACE VALUE	1.00	1.00	1.00	1.00	1.00
EPS	103.62	115.19	125.88	137.75	154.97

Ratio Analysis

Year	FY 22A	FY23A	FY24A	FY25E	FY26E
EPS	103.62	115.19	125.88	137.75	154.97
NPM	20.05%	18.76%	19.14%	19.46%	20.27%
EBITDA MARGIN	27.60%	27.81%	28.53%	28.37%	29.08%
ROE	43.13%	46.78%	50.94%	47.90%	49.72%
ROCE	52.91%	57.63%	63.51%	58.30%	59.98%
BOOK VALUE	243.55	247.06	249.97	287.60	311.66
P/BV	16.76	16.53	16.33	14.20	13.10
PE	38.86	35.44	32.43	29.64	26.35

BALANCE SHEET OF TATA CONSULTANCY SERVICES LTD FROM 2022-2026E

CAPITAL & LIABILITIES (Rs. In Million)	2022	2023	2024	2025E	2026E
Share Capital	3660	3660	3620	3620	3620
Other Equity	887730	900580	901270	1037497	1124572
Non-Controlling Interests	7070	7820	8300	8964	9502
NETWORTH	898460	912060	913190	1050081	1137694
NON CURRENT LIABILITIES					
Lease Liabilities	63680	62030	65160	78192	81320
Other Financial Liabilities	5720	3530	3650	8103	8589
Employee Benefit Obligation	6770	5360	6860	8095	8661
Deferred Tax Liabilities	5900	7920	9770	9282	10210
Unearned and Deferred revenue	11100	10030	4820	2506	2582
TOTAL NON CURRENT LIABILITIES	93170	88870	90260	106178	111362
CURRENT LIABILITIES					
Lease Liability	14500	14850	15050	15878	16672
Trade Payables	80450	105150	99810	134744	148218
Other Financial Liabilities	76870	90680	83620	71077	78185
Unearned and Deferred Revenue	36350	38430	36400	38220	40131
Other Liabilities	83920	48920	65240	34577	38726
Provisions	14110	3450	1400	1582	1740
Employee Benefit Obligation	38100	40650	45190	50613	55674
Income Tax Liabilities	79210	93450	114330	115473	127021
TOTAL CURRENT LIABILITIES	423510	435580	461040	462164	506367
TOTAL EQUITY & LIABILITIES	1415140	1436510	1464490	1618422	1755422
ASSETS (Rs. In Mn)					
NON CURRENT ASSETS					
Property, Plant & Equipment	107740	102300	93760	95635	98504
Capital Work In Progress	12050	12340	15640	15562	16340
Right Of Use Asset	76360	75600	78860	90689	97037
Goodwill	17870	18580	18320	19236	19813
Other Intangible Assets	11010	8670	5100	4182	4391
Investments	2230	2660	2810	2900	3045
Trade Receivable	2000	3480	1430	1490	1594
Loans	3110	1730	20	20	20
Other Financial Assets	22530	21490	32720	25522	27053
Deferred Tax Assets	19830	25830	34030	32329	35561
Income Tax Assets	37080	33070	16000	20160	22176
Other Assets	20230	28060	35960	37039	40002
TOTAL NON CURRENT ASSETS	332040	333810	334650	323113	341767
CURRENT ASSETS					
Inventories	200	280	280	280	280
Investments	302620	368970	314810	362032	390994
Trade Receivables	418100	499540	535770	589347	642388
Cash and Cash Equivalent	124880	71230	90160	85652	94217
Other Balances With Banks	57330	39090	42700	87535	96289
Loans	64450	13250	4910	2210	2430
Other Financial Assets	13900	13190	17030	31506	37807
Income Tax Assets	110	80	1510	1812	2084
Other Assets	101510	97070	122670	134937	147167
TOTAL CURRENT ASSETS	1083100	1102700	1129840	1295310	1413655
TOTAL ASSETS	1415140	1436510	1464490	1618422	1755422



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