MIRAE ASSET Sharekhan

Tata Consultancy Services Ltd

Focusing on AI transformation

IT & ITES	Sharekhan code: TCS
Reco/View: Buy ⇔	CMP: Rs. 3,218 / Price Target: Rs. 3,900 ⇔

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

Company details

Market cap:	Rs. 11,64,156 cr
52-week high/low:	Rs. 4,382/2,868
NSE volume: (No of shares)	28.4 lakh
BSE code:	532540
NSE code:	TCS
Free float: (No of shares)	102.2 cr

Shareholding (%)

Promoters	71.8
FII	10.3
DII	12.6
Others	5.3

Price chart

Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	1.3	-6.0	-25.6
Relative to Sensex	4.2	-0.6	-10.0	-30.4

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- TCS is moving toward an AI-led enterprise model, prioritising autonomous decision-making and cognitive reasoning to capture high-margin transformation opportunities.
- Its AI strategy rests on a five-level service autonomy framework, which has helped scale AI-related services to a $1.5 billion annualised revenue run rate with 16.3% sequential growth.
- TCS eyes a 26-28% EBIT margin while committing $1 billion in annual opex on AI innovation and talent development. We expect a revenue/EBITDA/PAT CAGR of 5.4%/6.9%/7.2% over FY25–FY28E, on strong deal wins, deep tech expertise and robust execution history.
- With major downside risks largely behind us, TCS presents a favourable risk-reward profile. As a result, we maintain a Buy with a PT of Rs. 3,900. At the current market price, the stock trades at 20.9x and 19.0x on FY27E and FY28E EPS.

TCS's shift to transform into an AI-led enterprise prioritises autonomous decision-making and cognitive reasoning over basic data digitisation, broadening its addressable market for end-to-end enterprise transformation. TCS aims to capture higher-value advisory and implementation revenues by positioning AI as a "decision coach" rather than a mere productivity tool, while fostering deep structural integration across client value chains. TCS's five pillars to drive this AI shift are:

- **Internal Transformation:** An "AI-first" culture that prioritises AI deployment.
- **Service Autonomy:** Shifting from manual automation to a five-level service autonomy framework to re-engineer all service lines.
- **Talent Re-engineering:** Restructuring the workforce into an AI-native model, transforming how teams are built and projects are delivered.
- Value Chain TransformationRe-imagining client business processes to drive high-value outcomes beyond simple software productivity.
- **AI Ecosystem & M&a Play:** Better speed-to-market via hyperscaler partnerships and targeted acquisitions to capture rapid technological shifts.

The following KPIs and proof points that demonstrate the firm's successful traction in the AI-led services market:

- AI-related services have achieved a $1.5 billion annualized revenue run rate. TCS reported a 16.3% q-o-q growth specifically for AI-related work. About 54 of the top 60 clients (those generating >Rs. 60 crore annually) are actively engaged in AI projects.
- About 85% of all clients generating over $20 million in revenue are leveraging the firm for AI-specific work. TCS has trained its entire sales and pre-sales force in AI and over 180,000 associates in higher-order AI skills.
- Has executed ~5,000 AI engagement. Over 200 platform implementations have been completed across core AI assets like Ignio and WisdomNext.

M&A and Ecosystem Integration: TCS's inorganic strategy prioritises accelerating speed-to-market by acquiring specialized capabilities in strategic advisory, deep domain expertise and market access. The firm utilises a "build and acquire" model to bridge technical gaps and scale more aggressively than organic development. A primary example is the back-to-back acquisition of LISTENGAGE and Coastal, which added over 500 specialists and secured TCS a "Summit Partner" status within the Salesforce ecosystem. These moves integrated a full-spectrum service suite spanning advisory, multi-cloud implementation, and managed services enabling the firm to capture both large enterprise and mid-market segments.

Financial outlook: TCS eyes a return to EBIT margins of 26-28% by leveraging operational efficiencies, such as workforce pyramid optimisation and SG&A discipline. A consistent capital allocation policy targets returning 80-100% of FCF to shareholders through dividends and buybacks. TCS has committed a $1 billion annually in opex on talent development, specialized infrastructure, and industry-specific R&I.

Data Center infrastructure: TCS is deviating from its traditionally asset-light model through the launch of Hypervault, a specialized joint venture with private equity firm TPG. This entity is established to build 1 GW of AI-ready data center capacity in India, requiring an estimated $7 billion investment over the next 5–7 years. The venture leverages a 51:49 equity split with TPG to minimize capital outlay while securing front-end synergies with hyperscaler anchor clients. Strategically, this provides a "360-degree" relationship where the firm captures both infrastructure co-location revenue and downstream managed services.

Our Call

TCS is leveraging its $1.5 billion AI revenue base and 5,500+ completed engagements to pivot from simple automation to high-value service autonomy, capturing 85% penetration among its largest clients. The strategic acquisition of ListEngage and Coastal Cloud ($700M) bolsters its Salesforce advisory and mid-market access, creating significant cross-sell tailwinds in AI-led consulting. TCS is aggressively addressing margin compression through a targeted restructuring of high-cost resources and a renewed focus on operational efficiency. With these corrective measures underway, we see limited further downside risk to near-term profitability and expect earnings resilience from the current base. At prevailing levels, the valuation screen is highly compelling. We maintain our Buy rating on TCS with a price target of Rs. 3,900.

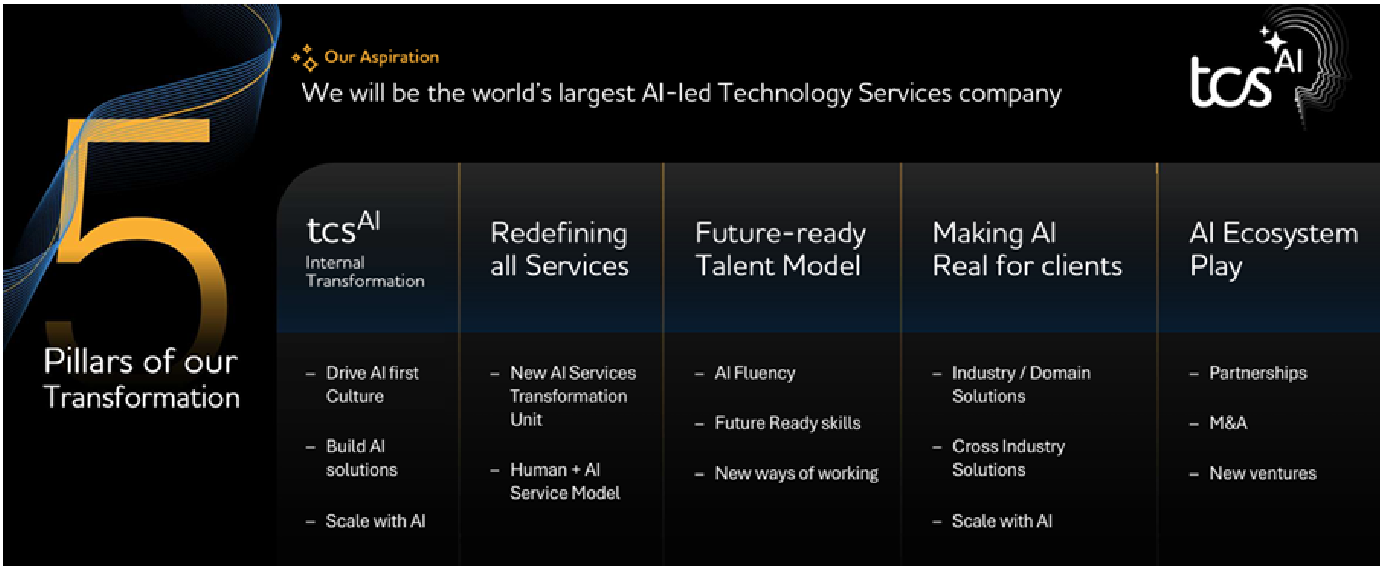
Key Risks

Risks include slower-than-anticipated recovery in discretionary spending or a further deterioration in market conditions, as well as any additional slowdown among its top five clients.

Valuation (Consolidated) Rs cr

Particulars	FY2025	FY2026E	FY2027E	FY2028E
Total Revenue	2,55,324	2,61,300	2,76,081	2,99,079
EBITDA margin (%)	26.4	27.3	28.4	28.8
Net Profit	48,553	52,240	56,807	62,428
% YoY growth	4.2	7.6	8.7	9.9
EPS (Rs)	134.2	144.4	157.0	172.6
P/E (x)	26.9	22.7	20.9	19.0
P/B (x)	13.6	12.1	11.7	11.4
EV/EBITDA	18.8	16.0	15.1	13.8
ROE %	51.9	53.8	56.9	60.7
ROCE %	60.0	61.9	66.5	70.8
Dividend Yeild (%)	2.6	4.2	4.5	5.0

Source: Company; Mirae Asset Sharekhan estimates



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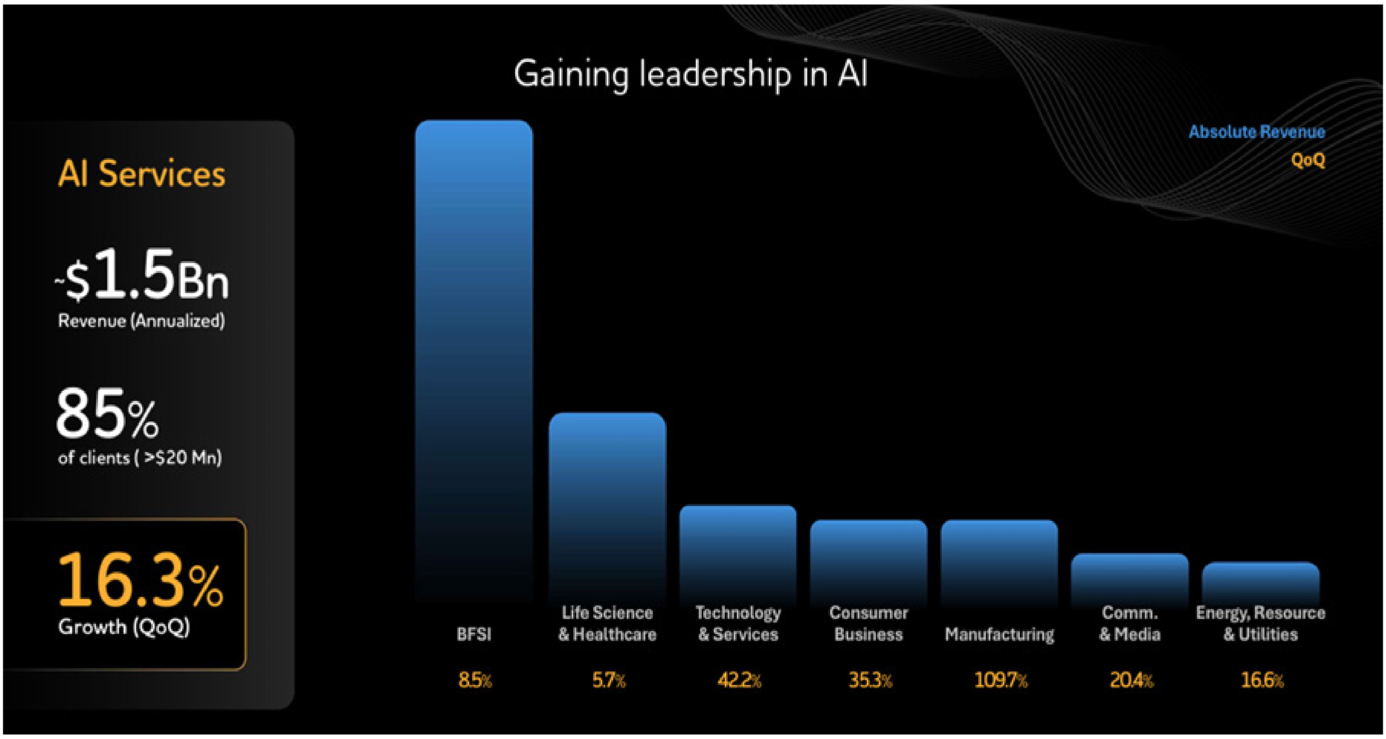


Source: Company

Outlook and Valuation

Sector Outlook

Robust deal pipeline, cost optimisation, and technology modernisation opportunities to aid growth The Indian IT sector is poised for modest growth in FY2026, driven by stabilisation in key markets like the US and Europe, alongside increasing demand for AI, cloud, and digital transformation services. Despite near-term challenges such as macroeconomic uncertainty, discretionary spending delays, and geopolitical volatility, the sector is expected to benefit from a robust deal pipeline and a shift toward cost optimisation and technology modernisation initiatives.

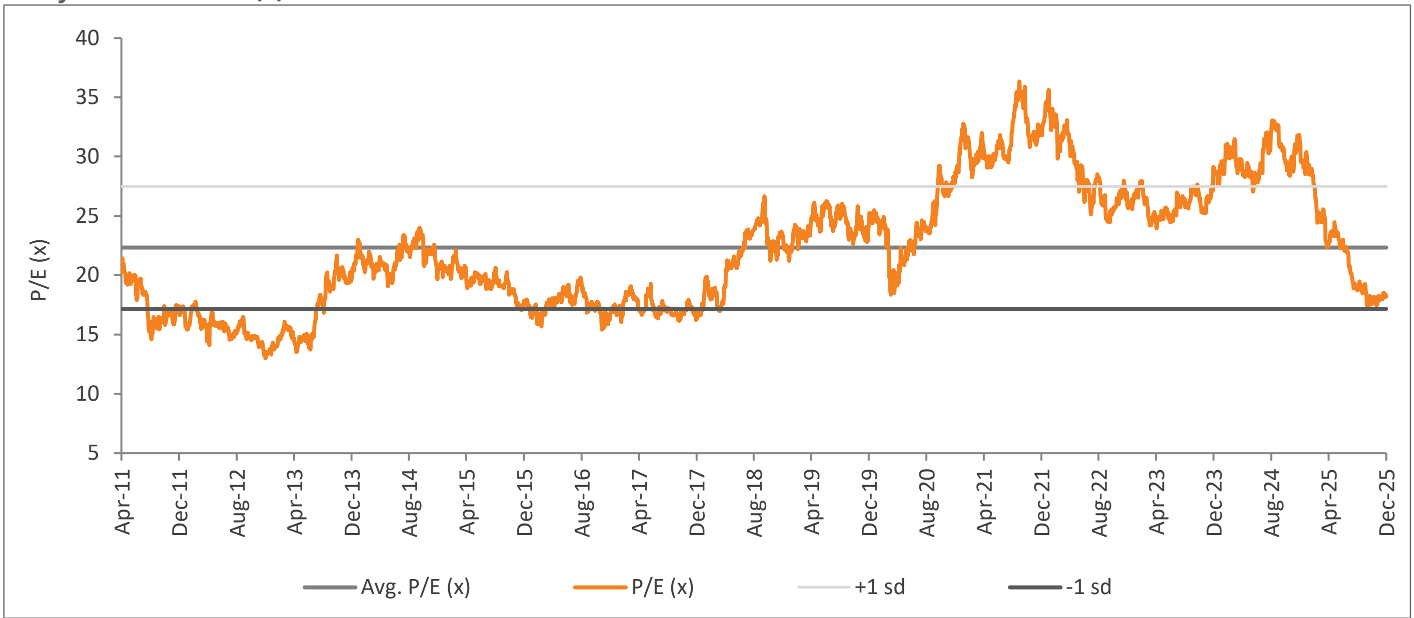
Company Outlook – Strong deal momentum and margin expansion to drive growth

The company is targeting operating margin of 26-28%, supported by the tapering of low-margin projects like BSNL and a focus on high-value AI/ GenAI and cloud deals. Demand is expected to strengthen as macroeconomic uncertainties ease, with BFSI, energy, and growth markets driving momentum, while hiring will remain aligned with demand, emphasising AI-skilled talent development. We believe that TCS remains well positioned to capture opportunities across cost optimisation and business transformation, given its strong domain knowledge, digital, and gen AI capabilities.

Valuation

TCS is leveraging its $1.5 billion AI revenue base and 5,500+ completed engagements to pivot from simple automation to high-value service autonomy, capturing 85% penetration among its largest clients. The strategic acquisition of ListEngage and Coastal Cloud ($700M) bolsters its Salesforce advisory and mid-market access, creating significant cross-sell tailwinds in AI-led consulting. TCS is aggressively addressing margin compression through a targeted restructuring of high-cost resources and a renewed focus on operational efficiency. With these corrective measures underway, we see limited further downside risk to near-term profitability and expect earnings resilience from the current base. At prevailing levels, the valuation screen is highly compelling. We maintain our Buy rating on TCS with a price target of Rs. 3,900.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

TCS, founded in 1968 by Tata Sons, began as a division to provide computer services and evolved into India's largest IT services company, pioneering the global outsourcing model. Over the decades, it expanded its offerings to include IT consulting, software development, and digital transformation, serving clients across banking, retail, healthcare, and more. As of April 2025, TCS is a global leader with a $30.2 billion revenue in FY25, employing 6,07,979 professionals across 50+ countries. Headquartered in Mumbai, it maintains industry-leading margins (24.3% in FY25) and a strong focus on AI, cloud, and GenAI innovations. TCS's robust deal pipeline ($12.2 billion TCV in Q4FY25) and client-centric approach solidify its position as a trusted partner for enterprise transformation.

Investment theme

TCS is one of the leading IT services companies with a wide-range of capabilities, robust digital competencies, strong platform, and stable management. The company is the preferred partner of large corporates and is increasing its participation in large digital implementation. Hence, we believe TCS would continue to gain market share in digital versus its large peers, given its superior execution capabilities on the digital front. We remain positive on the sustainability of its revenue growth momentum in the medium term, given strong deal wins, broad-based service offerings, higher spend on digital technologies, and best-in-class execution.

Key Risks

- Risks include slower-than-anticipated recovery in discretionary spending or a further deterioration in market conditions, as well as any additional slowdown among the company's top five clients.

Additional Data

Key management personnel

Name	Designation
N.Chandrasekaran	Chairman
K. Krithivasan	CEO
Samir Seksaria	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Tata Sons Pvt Ltd	71.74
2	Life Insurance Corp of India	5.02
3	Vanguard Group Inc/The	1.21
4	SBI Funds Management Ltd	1.19
5	ICICI Prudential Asset Management	1.11
6	Blackrock Inc	1.01
7	UTI Asset Management Co Ltd	0.47
8	HDFC Asset Management Co Ltd	0.45
9	Nippon Life India Asset Management	0.42
10	FMR LLC	0.38

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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