



TCS/SE/109/2026-27

October 14, 2026

**National Stock Exchange of India Limited**  
**Exchange Plaza, C-1, Block G,**  
**Bandra Kurla Complex, Bandra (East)**  
**Mumbai - 400051**  
**Symbol - TCS**

**BSE Limited**  
**P. J. Towers,**  
**Dalal Street,**  
**Mumbai - 400001**  
**Scrip Code No. 532540**

Dear Sirs,

**Sub: Transcript of the earnings conference call for the quarter and six-month period ended September 30, 2026**

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and six-month period ended September 30, 2026, conducted after the meeting of Board of Directors held on October 8, 2026, for your information and records.

The above information is also available on the website of the Company: [www.tcs.com](http://www.tcs.com).

Thanking you,

Yours faithfully,

**For Tata Consultancy Services Limited**

YASHASWIN NARENDRA SHETH  
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Encl: As above

## **TATA CONSULTANCY SERVICES**

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**Tata Consultancy Services Limited**  
**Transcript for Earnings Conference Call**  
October 08, 2026, 19:00 hrs IST (09:30 hrs US ET)

**Moderator:** Ladies and gentlemen, good day and welcome to the TCS Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nehal Shah, Head - Investor Relations at TCS. Thank you and over to you.

**Nehal Shah:** Thank you, operator. Good evening and welcome, everyone. Thank you for joining us today to discuss TCS' financial results for the second quarter of FY 2027 that ended on September 30th, 2026.

This call is being webcast through our website, and an archive including the transcript will be available on the site for the duration of this quarter. The financial statements, quarterly fact sheet, and press releases are also available on our website.

Our leadership team is present on this call to discuss our results. We have with us today Mr. K Krithivasan, Chief Executive Officer and Managing Director.

**K Krithivasan:** Hi everyone.

**Nehal Shah:** Ms. Aarthi Subramanian, Executive Director, President, and Chief Operating Officer.

**Aarthi Subramanian:** Good evening, everyone.

**Nehal Shah:** Mr. Samir Seksaria, Chief Financial Officer.

**Samir Seksaria:** Hello everyone.

**Nehal Shah:** And Mr. Sudeep Kunnumal, Chief HR Officer.

**Sudeep Kunnumal:** Hello everyone.

**Nehal Shah:** Our management team will give a brief overview of the company's performance followed by a Q&A session. As you are aware, we don't provide any specific revenue or earnings guidance, and anything said on this call, which reflects our outlook for the future or which could be construed as a forward-looking statement, must be reviewed in conjunction with the risk that the company faces.

We have outlined these risks in the second slide of the quarterly fact sheet available on our website and emailed them out to those who have subscribed to our mailing list. With that, I would like to turn the call over to Krithi.

**K Krithivasan:** Thank you, Nehal. Good day everyone and thank you for joining us. I would like to begin by calling out the key takeaways from our Q2FY27 performance.

**First, we sustained our growth momentum this quarter,** despite an environment that remains selective and uneven. Revenue for the quarter was **₹73,188 crore**. In constant currency, revenue grew **0.5% sequentially and 2.8% year-on-year**. International revenue grew **1.2% sequentially** in constant currency. **All international markets grew sequentially**, led by the United Kingdom at 3.5%, followed by North America and Continental Europe at 0.4% each.

**Second, our growth has broadened across our core portfolio.** **BFSI** grew **2.5%** sequentially in constant currency, while **Manufacturing and Technology and Services** each grew **3.1%**. **Consumer Business and Energy, Resources and Utilities** showed an improvement compared to the previous quarter. India revenue grew 6%, and Regional Markets grew 3.6% year-on-year.

**Third,** our order book remained healthy. TCV for the quarter was **US\$9.6 billion**. This excludes the Porsche and Best Buy deals. The quality of the

wins demonstrates our continued relevance in large, complex, and strategically important transformation programs.

**Fourth**, AI continues to scale as a structural growth opportunity. Annualized AI revenue reached **\$3.1 billion and crossed 10% of our overall revenue**.

**Finally**, we advanced our strategy through AI-led deals, ecosystem partnerships, and targeted acquisitions.

- Our partnership with **Porsche** and the proposed acquisition of **MHP**, which is subject to regulatory approvals, strengthen our position in AI powered mobility and engineering.
- The **Best Buy GCC** engagement highlights our ability to help clients build and transform AI-native global capability centers.
- We also launched **TCS ADD AgentHub** for drug discovery, domain-specific agentic control planes, and new **Physical AI** capabilities, including **Autonomous Engineering Lab** powered by NVIDIA in Bengaluru and an **AI-first lights-out factory** lab in Pune.

The demand environment has not materially changed since last quarter, and discretionary programs without near-term value remain under scrutiny. Against this backdrop, our primary opportunity and focus are on translating the advances in AI into measurable enterprise advantage for our clients.

I will now invite Samir, Aarthi, and Sudeep to go over different aspects of our performance during the quarter. I'll step in later and provide more color on the demand trends that we are seeing. Over to you, Samir.

**Samir Seksaria:**

Thank you, Krithi. Good day everyone.

Our quarterly revenue was **₹73,188 crore**, a growth of **1.3%** sequentially and **11.2%** on a year-on-year basis. In dollar terms, revenue was **\$7,642 million**, a growth of **20** basis points sequentially and **2.4%** year-on-year.

In constant currency terms, our growth was **50** basis points QoQ and **2.8%** YoY.

Our operating margins remained stable sequentially at **24%**. Consistent with our philosophy to drive long-term profitable growth, we continued to prioritize investments for growth.

In Q2, we made investments in strategic partnerships, M&A-related initiatives, and hiring of niche talent. As we build future capacity and navigate demand transitions, we have invested in a higher bench and increased hiring of subcontractors to meet near-term skills and delivery requirements. This quarter, we were able to mitigate these headwinds partly by currency gains and operating leverage.

Many of these investments are strategic in nature and are focused on long-term value creation. Our disciplined approach to margin management remains unchanged. As growth improves, we expect to benefit from enhanced scale efficiency while continuing to optimize our cost structures, align capacity with demand, and maintain our disciplined execution.

While we are prioritizing investments, we are focusing on 5 key areas:

- First, we continue to strengthen our portfolio through targeted capability acquisitions.
- Second, we are adding a stronger partnership ecosystem with Frontier AI companies, Hyperscalers, Semi-Conductor ecosystem, Tier-1 industrial suppliers, and enterprise software providers.
- Third, we are accelerating investments in our high-growth service areas – We are making investments in sales, solutioning, service transformation, new offerings, and business models across the five big bets we have called out, with a specific focus on AI and data.

- Fourth, we are investing in talent and capability creation at scale on learning and development, as well as on hiring niche talent.
- Lastly, we are creating new growth engines for the future. We are expanding into adjacencies, such as data center services, increasing our offerings for GCCs and the mid-market segments, strengthening our presence in areas such as ServiceNow, Public Services, and Sovereign Cloud.

Our priority remains clear: convert investments into sustainable growth while preserving the discipline that has consistently underpinned our profitability.

Our net margins for the quarter were **19%**. DSO stood at **74 days**, constant sequentially in dollar terms.

Our cash conversion remains strong at **102.2% of net income** and funds invested at the end of the period stood at **\$5.98 billion**.

Our capital allocation policy remains unchanged, and we remain committed to returning substantial free cash flows to our shareholders while judiciously investing to support our long-term growth aspirations.

I will now hand it over to Aarthi.

**Aarthi Subramanian:** Thank you, Samir. Good evening, everyone.

The biggest opportunity in front of us is in helping clients translate advancements in AI into business outcomes.

Clients see TCS as a partner who can use AI to enable growth, speed, efficiency. They are keen to invest the productivity benefits from AI into enterprise transformation initiatives that will make their organizations future-ready. TCS is benefiting from this shift, as evidenced by our growing AI revenues that crossed \$3 billion on an annualized basis this quarter.

Our priority is clear: use AI to create measurable value for our customers, and to improve how we deliver work for them. This quarter, we made

progress on both fronts, with growth in our AI business and wider adoption of our Human+AI services delivery model.

We are seeing three distinct demand patterns: (1) AI-native solutions with business outcomes, (2) AI-led transformation of enterprise systems, and (3) Autonomous GBS. Enterprises are also prioritizing investments in modernizing legacy data estates and building AI-ready data foundations. Across these demand patterns, strong AI governance with secure AI platforms is becoming a top need for enterprises.

Let me share an example of how we are building AI-native solutions with assured business outcomes.

- For a global industrial manufacturer, we are using an AI-native approach to solve a critical business need, compressing lead-to-quote time from 4.7 days to under an hour. We achieved this within a quarter, clearly demonstrating speed to value. The next step is to improve their lead-to-conversion metric. This is a good example of focused problem-solving and business outcome realization with AI.

Now let me share how AI is changing the approach to transforming enterprise systems. AI is playing a key role in process mining, which helps us understand existing workflows. Redesigning processes with a human and AI approach by default is enabling upfront identification of agentic opportunities. And the acceleration of implementations with AI is real.

- In a large, complex S/4HANA enterprise transformation spanning 27 sites, more than 70 legal entities, we are using AI to redesign processes and accelerate implementation. Our approach, supported by TCS' agentic platform, targets 25% to 30% faster implementation.

Last quarter, I spoke about autonomous GBS and how agentic AI in business process execution is scaling significantly. Business ops teams are now embarking on agentic transformation across finance, HR,

procurement, and customer service. This is opening new opportunities for us to engage with business teams and create new value propositions.

- For a North American energy resources company, we are transforming their global HR operations to double operational efficiency and increase self-serve adoption from less than 10% to 30%.

Beyond AI, cybersecurity is another area enterprises are prioritizing globally. While enterprises continue to strengthen cyber controls, the focus on cyber resilience and recovery is rising.

Frontier models are also changing how enterprises manage vulnerabilities, enabling discovery, prioritization and validation.

- For a European bank, we are reimagining enterprise security through an integrated AI-powered operating model.

Recent AI-related cybersecurity incidents are a reminder that AI needs the same rigorous engineering and operational discipline as any enterprise technology.

Strong governance and clear guardrails must therefore be built into every enterprise AI deployment. As agents scale, enterprises will need more robust orchestration, access controls, security, observability, cost controls, and policy enforcement.

Cost discipline matters just as much. We help clients manage AI token costs through benchmarking, model and architecture selection, token economics, and FinOps advisory. Our focus is to deliver the right level of intelligence at the right cost.

This creates a significant and growing opportunity for TCS across AI governance services and platforms. We recently won an engagement with a major global insurer to build an enterprise AI agentic platform and a common agentic control tower for managing both in-house and third-

party agents. Our engineering depth and working demonstrations helped create differentiation.

We are also working more closely with business teams to turn their priorities into realized benefits. In one engagement where TCS was not the incumbent, our team identified pain points and built working demonstrations during a three-day customer workshop, which helped us secure the deal. 21 Forward-Deployment Engineers are now working directly with business on executions.

Over the last 12 months, we have made good progress in deploying our Human+AI service autonomy model across client engagements. For Agentic AMS, TCS has earned top ranking from customers, underscoring the strength of our differentiated capabilities delivered at scale.

Our investments in Salesforce are delivering results. By combining the strengths of Coastal Cloud, ListEngage, and our own Salesforce practice, we are driving significant growth. Recently, leading analysts have recognized this progress, ranking TCS as the #1 Salesforce Services partner.

Looking ahead, will continue to engage customers across their business and technology transformation agenda, leveraging our capabilities, context, and industry platform solutions to create distinctive value propositions. These are early days, so being progressive and proactive with our ideas and solutions is essential, and we are doing this the way we know best – with a customer-centric approach.

Thank you. I will now hand it over to Sudeep.

**Sudeep Kunnumal:** Thank you, Aarthi. Hello everyone.

This quarter, we continue to invest in future-ready talent, onboarding top talent globally, taking our workforce to **598,056** associates.

Our hiring strategy continues to balance experienced talent, early career talent, and internal mobility. As client demand evolves, we remain

focused on strengthening AI and domain expertise, improving deployment readiness, and investing in continuous learning.

Over the past year, we have significantly expanded our technology and AI capabilities through large-scale learning and reskilling initiatives. Our learning hours saw a **17% QoQ** increase to **17.1 million hours**.

LTM attrition in IT services reduced by 30 basis points sequentially to **13.3%**.

This ability to combine workforce stability with continuous at-scale learning remains a key differentiator for TCS.

We remain committed to building a future-ready workforce and a workspace where associates can learn, contribute, and grow.

Thank you and I now hand it back to Krithi.

**K Krithivasan:**

Thank you, Sudeep.

Let me now provide some additional color on industry trends before concluding our prepared remarks.

- BFSI was our strongest large vertical and the largest contributor to growth, **with 2.5% sequential and 3.9% year-on-year growth in constant currency**. Growth was broad-based across banking, capital markets, and insurance, with strong momentum in the UK, Europe, and Asia Pacific. Clients continue to invest in AI, risk and regulatory modernization, cyber resilience, data platforms, and operational efficiency.
- **Manufacturing grew 3.1% sequentially and 4.2% year-on-year**. Demand is improving around factory automation, engineering productivity, product lifecycle modernization, supply chain resilience, predictive maintenance, and industrial AI. Our investments in AI-led vehicle engineering, smart manufacturing, and physical AI are helping us participate in larger and more strategic programs.

- **Technology and Services grew 3.1% sequentially and 4.8% year-on-year.** Growth was driven by enterprise software, technology products, engineering, cloud modernization, and digital transformation. At the same time, traditional application and infrastructure portfolios are seeing an increase in agentic AI adoption. We are leading with AI-first software engineering, autonomous operations, platform simplification, and AI-ready data foundations.
- **Consumer Business declined by 0.7% sequentially and 1% year-on-year.** Retail and consumer products remain sensitive to inflation, energy costs, and selective consumer spending. Travel, transportation, and hospitality demand remained resilient, but discretionary spending is affected by cost pressure and increased insourcing. We continue to see opportunities in operational efficiency, supply chain visibility, customer experience, pricing, cloud, data, and AI-led modernization.
- **Life Sciences and Healthcare grew 0.3% sequentially,** with stable demand supported by long-term priorities in compliance, clinical and research platforms, data modernization, AI-enabled drug discovery, patient engagement, revenue cycle modernization, and cybersecurity.
- **Communications and Media was broadly flat,** with growth in media, publishing, and digital platforms offset by continued pressure in the telecom vertical.
- **Energy, Resources, and Utilities declined 0.5% sequentially,** although investments in grid modernization, resilience, cybersecurity, asset optimization, and AI-enabled operations remain relevant.

International revenue grew sequentially. Performance improved across most industry groups, and growth broadened across the core portfolio.

Our TCV was at **\$9.6 billion**, our win rates improved, and annualized AI revenue reached **\$3.1 billion**.

We believe clients are moving toward a new phase of enterprise AI adoption. Opportunity is shifting from isolated use cases to redesigned value chains, governed agentic systems, AI-ready infrastructure, and Human+AI operating models. Our Infrastructure to Intelligence strategy, contextual knowledge, delivery capabilities, platforms, and ecosystem partnerships position us well for this transition.

We will continue to execute with discipline, invest in differentiated capabilities, and help our clients achieve measurable outcomes in growth, productivity, and resilience. These priorities support our aspiration to become the world's leading AI-led technology services company and create sustainable value for our clients, employees, and shareholders.

With this, we will open the line for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. We will take our first question from the line of Sudheer Guntupalli with Kotak Mahindra Asset Management. Please go ahead.

**Sudheer Guntupalli:** Hi, Krithi. Thanks for the opportunity. My first question: Your core markets' growth accelerated quite nicely in this quarter. Do you think the momentum in this part in the international business to continue in the coming quarters as well?

**K Krithivasan:** Sudheer, definitely, looking at all the parameters, I don't want to comment on the immediate next quarter basis, but on a medium-term basis, looking at the TCV, looking at the pipeline and the client conversations that we are having, we're confident that growth momentum will continue.

**Sudheer Guntupalli:** Sure, sir. Both BFSI and Hi-Tech verticals are reflecting a typical September quarter kind of seasonal strength this time. Given these two verticals also are the ones which are early adopters of technology, is it fair

to sort of assume or conclude that AI deflation impact, at least in these two verticals, is now more than offset by incrementality of AI opportunity?

**K Krithivasan:** I don't want to say it is complete, Sudheer, on one hand, there is a deflation because of the productivity benefit. But also, these industries use AI for modernization, and it also creates vendor consolidation opportunities. Also, for instance, if you take BFSI. BFSI is where our AI revenues, the percentage also grew very fast.

There are a number of things that are happening in these industries. I don't want to conclude by saying that the deflation part is complete, but I think there are a number of opportunities in these industries we are working on, which gives us confidence that the growth can continue.

**Sudheer Guntupalli:** Okay, sir. One last question to Samir. On the subcon increase this quarter, should we see this as a proxy for visa cost, given that we would not have applied for a lot of visas, given the sharp jump in visa fee last year?

**Samir Seksaria:** The overall increase in subcon has been across India as well as overseas. It is more to meet near-term demand-supply skill mismatches. Some part of it could be linked to visa fee hike also, but not completely.

**Sudheer Guntupalli:** Thanks, sir. All the very best.

**Moderator:** Thank you. Our next question comes from the line of Ravi Menon with Axis Capital. Please go ahead.

**Ravi Menon:** Thanks for the opportunity. First of all, congrats on a pretty good performance across multiple verticals this quarter. But we've seen the India revenue decline by about 10% and also seen a slight decline in the 100 million clients as well this quarter and 50 million clients as well. Are both these client metrics decline, and India revenue correlated, and what caused this revenue decline in India?

**K Krithivasan:** Ravi, as we have always been calling out, the regional market, while we say regional market, it's a bunch of quite a few volatile segments. In India, we had a project deferral, which caused this revenue decrease.

Otherwise, there's no structural issue, and we are hoping to deliver these projects in subsequent quarters once the projects are reinstated. We don't see any major concern there.

On the client metric, we had only one specific drop. The second is coming because of the currency exchange. The account, which was at the cusp, dropped below the 100 million band, because of the currency movement. So, there is no structural issue.

**Ravi Menon:**

Thanks so much for that. Can we think about this disclosure about AI revenues as similar to what we've seen for digital? When we saw that digital portfolio reached a certain level and that was growing much faster than the overall portfolio, you saw that inflection point for growth. With AI revenues now hitting 10%, can we say that from here, growth has troughed out if you look at, say, on a last two, three years basis compared to looking at the next two, three years? Would you say that you're more optimistic that growth would be faster in the next two, three years compared to the last two, three years?

**Aarthi Subramanian:** Ravi, this is Aarthi here. So, I think, like you said, I think we did quite well on AI revenues this quarter. But when we look at our revenues, we look at traditional revenues, new services revenues, and AI revenues. Our new services revenues did well this quarter, whether what Krithi alluded to AI-led tech modernization, enterprise core transformation, whether it's on the ERP side or on the industrial side in manufacturing and pharma sector, BPS, cybersecurity, all of them did well. Obviously, the AI growth rate came out rather nicely.

On the traditional services also, vendor consolidation and AI-powered software engineering, IT ops, how we innovate in execution is helping us differentiate and grow market share in traditional services also. In a space where AI is definitely creating efficiency and productivity, but there are tailwinds on the back of vendor consolidation in those traditional areas as well.

**Ravi Menon:** Thank you so much for the detailed explanation. One last question to Samir. To get back towards 26%, which is the aspirational margin, do you think that we'll be able to bring down subcontracting costs over time, or what are the key levers that could take you towards 26%?

**Samir Seksaria:** Overall, our long-term aspiration remains unchanged, continues to be 26% to 28%. In the near term, we will continue to prioritize investments for growth. Looking ahead, in terms of what are our levers available; subcon expenses, given the rate at which it has increased, definitely is one of the levers.

Also, some of the investments will start to deliver results. That could be another lever. And we have been focused on our margin discipline as always, and the traditional levers, whether it is productivity or utilization will also continue. And some of our non-employee expenses also have been increasing. So, at various points of time, we have used these levers. And towards getting to 26%, these would definitely play a role.

**Ravi Menon:** Thank you so much. Best of luck.

**Moderator:** Thank you. Our next question comes from the line of Ruchi Mukhija with ICICI Securities. Please go ahead.

**Ruchi Mukhija:** Thank you for the opportunity. I'll take a stab at the AI question once again. This quarter, we saw AI revenue grow by 19%, while the traditional non-AI revenue declined. Should we interpret this as AI increasingly substituting the traditional services, or we are seeing incremental client spending? And what needs to happen for AI to become the overall revenue growth driver?

**Aarthi Subramanian:** Definitely, we see AI as a net new driver of new opportunities. But I think, Ruchi, the way we see it, more and more AI is becoming pervasive in an organization and playing a role in every transformation a company embarks on. So, whether it's any enterprise transformation, or business

operations transformation, or an agentic transformation, which are new ways that we can solve problems for business, I think AI is playing a role across the board.

**Ruchi Mukhija:** Okay. Secondly, on margin. So, this quarter we saw a gross margin decline sequentially despite this quarter not having any wage hike impact. Samir, could you quantify how much of this we see structural, meaning we are making active investments for AI, and how much of this is temporary?

And second part to this, given the ongoing investment, we also have Best Buy GCC coming in, and MHP consolidation playing out in H2. In that context, how do we think about the margin commitment we had made around exiting FY27, at 25% plus EBIT margin range?

**Samir Seksaria:** Sure. First, on the gross margin part, as you can see the increase which is in subcontractors, third-party expenses, directly reflects on the gross margin. The other investments which I talked about are more SG&A linked investments.

And as I mentioned earlier, we are prioritizing investments for growth. And like you mentioned, looking ahead into the second half, we anticipate a few headwinds. The acquisition-related dilution, particularly in MHP, is likely to impact by about 50 basis points depending on the timing of closure and when the integration starts. The normal furlough seasonality and our continued ecosystem investments would be our headwinds.

And as I answered Ravi's question, some of the Q2 headwinds will start to taper off or start giving outcomes. And at the same time, we'll try to balance with operating levers. While it's an uphill task, we'll continue to endeavor to inch up on our margins.

**Ruchi Mukhija:** Thank you.

**Moderator:** Thank you. Our next question comes from the line of Nitin Padmanabhan with Investec. Please go ahead.

**Nitin Padmanabhan:** Yes, hi. Good evening. Thanks for the opportunity. Wanted your thoughts on the regional markets, more specifically in the context of the BSNL deal. Do you think that should sort of lend to some sort of support as we get into the second half? The second bit is, in the context of we entering Q3, any thoughts you have from a furlough perspective in conversations with clients?

And third, I think from a margin perspective, I think we originally had this thought process that, obviously Q1, we had the compensation increases, and then as we go through the year, by the end of the year, at least from an exit perspective, we should be closer to 25%. In terms of what has changed in that thought process from an investment perspective, and when do you think investments really peak out? Would be great to have your thoughts on both these things as well. Thank you.

**K Krithivasan:** Nitin, I'll answer the questions on BSNL and Q3. Samir can take up the question on margin. BSNL can provide a cushion for the next couple of quarters. But the fact is regional markets will be volatile; we don't do that much of annuity-based work in the regional markets.

And also, for some of the programs we do here, the deliveries tend to be lumpy. So, you will always see some volatility in regional markets. That's the reason we call out the regional market separately. And in Q3, so far from what we are seeing, the furlough will be very similar to the previous years. We don't see any major change. Over to you, Samir.

**Samir Seksaria:** So, Nitin, on the margins, for the past few quarters, we have been talking about prioritizing the investments and focusing on growth, at the same time maintaining the margin discipline.

And yes, right now also we are saying we want to inch up, but the primary near-term focus has been on prioritizing the investments. And that's where we have called out the investments we are making.

In the immediate timeline, I have called out the next phase of investments for the coming few quarters. Will it peak out? I would expect some of them

to start delivering results, and growth, being an important margin lever should also help.

**Nitin Padmanabhan:** Perfect. That's very helpful. Thank you so much, and all the best.

**Moderator:** Thank you. The next question is from the line of Vibhor Singhal with Nuvama Equities. Please go ahead.

**Vibhor Singhal:** Yes, hi. Thanks for taking my question. Two questions from my side. In the last conference call, we had mentioned and many other companies have also mentioned that with the advent of these LLM platforms, clients are now increasingly coming to us and asking us to build an application layer underneath which the LLMs kind of sit so that this provides these clients a flexibility to switch between the LLMs, helps them optimize the token cost, etc.

Have you seen that trend continue in this quarter as well? Any new things that you might have picked up? Are the clients also kind of moving away from the mainstream LLMs to some sort of small language models, where our expertise becomes a very big deciding factor? Any color on that would be very helpful?

**K Krithivasan:** Vibhor, like what you said definitely is playing out. Last time also, we laid out our Infrastructure to Intelligence where it's made up of infrastructure layer and there's a model and data layer and on top of that is an agent layer. And on the agent layer, we are building the agent control planes.

And on the model and data layer, we are building applicable model harness so that customers can use either SLM or LLM or open-source, open-weight model based on the need and criticality, and what is the application.

So, those discussions continue. Particularly this quarter, we've seen strong success in the agent control plane. I'll request Aarthi to provide more color on this one.

**Aarthi Subramanian:** Thank you, Krithi. Vibhor, absolutely, yes. I think as the enterprises are focused on safe, secure, and responsible deployment of agentic AI, they need a strong foundation to scale.

So, building the AI platform, and more so this year, agentic control plane is becoming a key layer not just in terms of governance, but in terms of cost management, really looking at agent performance and the full end-to-end agent lifecycle. Like Krithi said, this quarter, we saw some very good wins where we are building agentic control planes for our customers.

**Vibhor Singhal:** And, Aarthi, if I can just dwell a bit more on that. Are there any specific pockets or, let's say, verticals, maybe banking or hi-tech, some other verticals where we're seeing more of this at this point of time and some other key segments maybe lagging behind a bit and yet to catch up?

**Aarthi Subramanian:** Sure. I think that's a great question, Vibhor. What we are seeing is, first of all, when we look at the \$3.1 billion annualized revenues, AI revenue is growing across every vertical. I think that's very positive.

Now, there are three verticals which are leading in terms of growth rate, and the top three verticals are BFSI, Manufacturing, and Life Sciences and Healthcare. And in these three verticals, we are seeing the whole agentic control plane, AI governance. See, these are all evolving things, right?

So, while technology is rapidly developing, then, you know, you see customers who are leading to create proof points and create the playbook for enterprises to follow.

So, I think those verticals are leading, but I would say that Consumer, Technology, and Energy, Resources, Utilities are also following pretty closely in terms of very active adoption of these trends.

**Vibhor Singhal:** Got it. Thanks a lot for that detailed answer. Just one last question for Samir on the margins part. The margin trajectory that we are seeing at this point in time is majorly because of the higher subcontracting expenses

and the investments that we are doing. There is no pricing pressure that we are seeing across any of the pockets. Is that the right assumption?

**Samir Seksaria:** Broadly yes, and I'll give you some color. See, there would be some front-loading of productivity benefits that could happen. But at the same time, we are seeing better pricing on the AI revenues we are generating. And if you take the revenue per employee, you will see there's a slight reduction, not a significant one. So, at an overall portfolio level, the pricing is broadly stable.

**Vibhor Singhal:** Got it, Samir. And just to wrap it up, given that we are at 24% at this point of time, you mentioned around 50 basis point headwind from the MHP deal. At some point in time, the BSNL project would also come in.

I mean, do we have a target in mind that we are looking for in terms of exit rate for this year? Will we be able to get closer to 25%, or will that look difficult from the vantage point that we are at this point in time?

**Samir Seksaria:** As I mentioned, we'd look towards inching up from where we are, whilst not losing sight of prioritizing investments for growth.

**Vibhor Singhal:** Sure. Great. Thank you so much for taking my questions and wish you all the best.

**Moderator:** Thank you. Our next question comes from the line of Sandeep Shah with Equirus Securities. Please go ahead.

**Sandeep Shah:** Yes, thanks for the opportunity. The first question is, one of your large peers who gave the guidance for the next year, this time, they clearly notified that the growth in consulting and managed services would be almost similar. And this could be because of clients now spending beyond AI infra into AI-led services.

So, is your client conversation actually implying that? And once the macro-led issues subside, this could be a trigger which one can expect in the next calendar year?

**K Krithivasan:** So, Sandeep, when Aarthi spoke, she outlined a few types of projects that we are doing in AI, right? That is, AI-native solutions with business outcome, AI-led transformation of enterprise systems, autonomous GBS, and AI coming up in technology modernization, modernizing data estate. All these are, at this time, we see increasing in volume, increasing recurrence or frequency.

So, clients are continuing to invest and explore opportunities on optimizing the token cost. But there's a greater interest in leveraging AI for a business outcome and technology modernization, and we believe that will continue.

**Sandeep Shah:** Okay. And just next question for the CFO, Samir. Sir, on an organic basis, is it fair to assume that the guidance is still intact for reaching 25% by 4Q, if I exclude the 50 bps kind of adverse impact from MHP consolidation?

**Samir Seksaria:** See, there would be pluses and minuses. No point in looking at only organic margin, right? There would be macro factors impacting seasonality. So, on an overall basis, we will balance our investment priorities and our disciplined execution, and we will work towards inching margins higher from here. But right now, the near-term priorities on investment continue.

**Sandeep Shah:** Okay. And, Samir, just a related question. If I look at employee costs, there has been an absolute decline of 0.6% QoQ despite increase in base in employees this quarter, as well as last quarter. So, is it the lower variable pay or incremental offshoring are the factors? And do you believe incremental offshoring in an AI world could continue as a going forward method of delivery?

**Samir Seksaria:** Right, Sandeep. As you rightly called out, the employee expenses will reflect a combined effect of workforce mix, location mix, skill composition, hiring patterns, etc. Having said that, given our performance against internal targets, we have had a lower outlay in performance-linked bonus this time.

- Sandeep Shah:** Okay. Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Gaurav Rateria with Morgan Stanley. Please go ahead.
- Gaurav Rateria:** Hi. Thank you for taking my question. I have a couple of questions. My first question is about your AI revenues. Is that accretive to the gross margins at the company level? And if not, what will change over time? Is it more on the revenue productivity side or the cost side that will drive margin accretion from the new business?
- The second question is on the comments, Samir, that you made on the capacity creation on the bench side on the investment that you're making. Is it to reflect the improving demand or broad basing of the demand in the coming quarters? Or is it again the issue of supply-demand mismatch that is leading to the bench creation that you spoke about?
- And the last question is about your data center business. At what point in time can we see some capacity getting operational and start contributing to the revenues? Thank you.
- Samir Seksaria:** Sure, I'll take all three of them, Gaurav. On the first one, the \$3.1 billion AI revenues which we have are coming in at a much higher margin than our company average.
- On the data center business, as we have consistently called out, we will plan our expansion on or the capacity creation on the data centers once the contract comes in, while the initial plans and layout are in place. And it will take about 18 to 24 months before the revenues start kicking in. On the capacity creation, Gaurav, if you can repeat it again, sorry.
- Gaurav Rateria:** Yes. The question is about your comment that you made that created more bench capacity this quarter. So, was it to reflect the improving and broad basing of demand that you're seeing in coming quarters? Or was it led by more supply-demand mismatch that you talked about?

**Samir Seksaria:** I think if you look at some of the new-age skills which we are hiring, first, we need to get them, and then the deployment happens with a lag. So, that's where the capacity creation. So, it is the prior one which you talked about on the demand.

**Gaurav Rateria:** Thank you, all the best.

**Moderator:** Thank you. The next question is from the line of Dipesh Mehta with Emkay Global. Please go ahead.

**Dipesh Mehta:** Yes, thanks for the opportunity. Two questions. Just want to get sense about North America. North America growth is lagging company average, and YoY basis, it is almost half of company average. Can you provide some sense how you are expecting North America growth to play out considering overall industry exposure?

Second question is about two verticals particularly. One is ERU, Energy, Resources, and Utility, and the Consumer, which softened this quarter, but how do you expect it to play out entering into H2? Thank you.

**K Krithivasan:** Yes. Dipesh, North America, see, overall, our discussions with the customers and the TCV, they are all looking good. And we expect North America revenue to recover and become healthy soon.

And in Consumer Business, seasonally, Q3 is an important quarter for the Consumer business. In the medium term we are expecting growth to improve.

In the medium term we see structurally ERU should also recover.

Overall, across multiple industry segments, looking at the TCV, looking at the client conversation, we are positive that medium-term growth should return.

**Dipesh Mehta:** Understood. And last question on the margin. I think we covered it to some extent, but if you look at it from gross margin to conversion perspective and some of the AI business is sort of better margin than company

average, by when do you expect our normal margin range to return considering the mix change as well as some of the growth uptick which you are envisaging currently?

**Samir Seksaria:** One, on the gross margin, as we said, subcontractors, some of the M&A initiatives are reflecting in it. I will, reiterate the same thing that right now, we are prioritizing for growth and we do expect the growth, like we talked about on the capacity creation, will reflect into the revenue in the coming quarters, and I have called out that we'll have incremental headwinds. And we are looking towards inching up from here.

**Dipesh Mehta:** Thank you.

**Moderator:** Thank you. Our next question is from the line of Rishi Jhunjunwala with IIFL Institutional Equities. Please go ahead.

**Rishi Jhunjunwala:** Yes. Thanks for the opportunity. I have two questions. First one is, so you've recently announced deals like, taking over GCC of Best Buy and this MHP deal as well. It seems like, customers are willing to transfer their IT operations or workload to you.

In an environment where AI is bringing significant productivity, what is the thought process behind some of these customer deals that you've been able to win? And are they expecting significant amount of that productivity to be driven through you? And as a result, are these deals, while strategic in nature, may also be dilutive on the margin side to begin with?

**K Krithivasan:** So, Rishi, let's talk about the MHP deal. That's probably similar to other cases also. This has got nothing to do with productivity. See, this is about how they transform themselves as an organization, and they're bringing a steep capability in automotive sector.

And what we will be doing with MHP is working with them and establishing an AI Centre of Excellence for mobility that would transform the product engineering, maintenance, engineering, develop design, and supply

chain, all of them leveraging AI. And in the process, helping Porsche to become an AI-first organization.

So, you have to look at this not from a productivity angle, but how do we transform the organization to become AI-first. And that would be a very similar playbook we'll be using in the other Best Buy deal also. Wherever we are doing this, the organizations are coming to us to accelerate their own AI transformation. And we leverage the domain capability and industry knowledge they bring in with the customer context and with the AI capability to help in the transformation.

**Rishi Jhunjunwala:** Understood, sir. The second question is, and maybe some parts of this has been asked earlier as well. There are three cost line items that if I aggregate, which is fee to external consultants, cost of equipment and licenses, and project expenses and software for service delivery.

These three put together seem to be in the nature of the cost that you incur on providing delivery. For the past 2 to 3 quarters, these costs have been growing at almost 40% year-on-year versus your revenues growing at 11%, 12% in rupee terms.

So, just wanted to understand, how do we look at this significant increase in these costs? Are these upfront investments being done and as a result, will actually sweat out a lot better in the next, 4 to 8 quarters, or this is how the nature of deals or the nature of delivery is now happening, if you can give some color on that?

**Samir Seksaria:** So, Rishi, as you called out, the fee to external consultants is where incremental costs to fulfil delivery is sitting, project expenses are where the partnership costs are primarily sitting. Cost of equipment, the third-party pass-through expenses have broadly been flat for the last 2-to 3 quarters.

Now, in terms of how do view these investments, it's a combination of both. It is investing into the capacity for the growth that will come with a lag. And if you look at my commentary in the previous quarters also, we

have been calling that out. And we expect some of that to continue. On the partnerships, we are accelerating on the 360-degree solutions.

**Rishi Jhunjunwala:** So, safe to assume that some of these will be levers for your margin target that you've been talking about over the next 2- to 4 quarters?

**Samir Seksaria:** So, safe to assume that we will continue the investments, safe to assume that we will be looking at the traditional levers and some of them, like the subcontractor costs, definitely as an opportunity to optimize. Safe to assume that driving better productivity and driving better utilization would be on our radar.

**Rishi Jhunjunwala:** Got it, sir. Thank you so much.

**Samir Seksaria:** Thank you, Rishi.

**Moderator:** Thank you. The next question is from the line of Kumar Rakesh with BNP Paribas. Please go ahead.

**Kumar Rakesh:** Hi, good evening, and thank you for taking my question. My first question was around the employee addition for the last couple of quarters have been running ahead of the revenue growth sequentially, and Samir also spoke about that subcontracting has increased in this quarter to match the skill requirement?

Is this fair to see that this is a reflection of your confidence in growth going into the near term, December quarter or near term, or this is just the timing thing which we are looking at?

**Sudeep Kunnumal:** Hi, Kumar. Sudeep here. So, we are seeing definitely the demand up, and especially for next-gen skills. So, our hiring is to fulfill and capture the demand.

**Kumar Rakesh:** Got it. Thank you. And my second question was around margins. Samir, you spoke about the 26% plus, 26%-28% margin band. That seems like more of a North Star now, may not be realistic given all the investment requirement in the business and the current environment.

So, would we revise the band which gives sense for the floor of the margin where it can potentially fall to give all the investments which the business would need?

**Samir Seksaria:** See, we have always called 26%-28% as our guiding beacon, and we would not want to shift away from that. That is what rallies us to go towards it, and we are going to keep it at 26%-28%. And that's the long-term aspiration we'll work towards.

**Kumar Rakesh:** Sure. But from a medium-term perspective, the path to that, would we see more of investments happening, some more softening on terms of margin can be a reality, or we should expect this to be a floor now?

**Samir Seksaria:** See, as we said, we are making those investments, and we are prioritizing them.

**Kumar Rakesh:** Got it. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Ashwin Mehta with Ambit Capital. Please go ahead.

**Ashwin Mehta:** Yes. Thanks for the opportunity. Two questions. So, we'd hoped for 2Q to be better when we talked in 1Q. So, what were the areas of negative surprises this quarter which kept the growth closer to the 1Q levels? And the second question was in terms of the nature of deferrals in India deals. So, were these deals involving hardware purchases, and given the bump-up in terms of prices there, was that the reason for the deferral? And do we see that revenue materializing in 3Q, or it could get pushed out further for later? And the last one was in terms of fresher hiring this quarter. What did we have?

**K Krithivasan:** Ashwin, I'll answer the first two questions, and Sudeep will answer on the fresher hiring. On Q2, same as Q1, as we explained, Q2 has been good almost across all parameters except the regional markets. If you compare Q2 and Q1 on international growth, Q1 was almost flattish on

international growth, and international growth in Q2 is almost like 1.2%, only offset by the headwind we had in the regional market.

And what we talked about in India, it's not related to any third-party or hardware pass-through. And we expect it'll come back because there was a deferral, but we are very confident it will be back in the medium term. We don't want to put a particular date, but this is the revenue that most likely should come back. And Sudeep?

**Sudeep Kunnumal:** Yes. Hi, Ashwin. We onboarded 10,000 graduates from the University this year globally. And as we speak, we are in the final stages of our campus hiring for the students who graduate in the coming financial year.

**Ashwin Mehta:** Just one follow-up, given that we added 14,000 freshers last quarter, we've added 10,000 in this quarter, and our net addition is just 13-odd thousand people over the last two quarters, would it be fair to assume that the hiring momentum could actually continue in the second half for us to have the bench to service demand?

**Sudeep Kunnumal:** Ashwin, as I said, we are hiring to demand, and definitely we're seeing good demand in these new technologies. So, we will continue to hire to staff those positions.

**Ashwin Mehta:** Thanks, and all the best.

**Sudeep Kunnumal:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we'll take that as our last question for today. I now hand the conference over to the management for closing comments. Over to you.

**K Krithivasan:** Thank you, operator.

- In Q2, our revenue grew **0.5% QoQ** in constant currency, with international markets growing strongly at **1.2%**.
- We delivered an operating margin of **24%** and net margin of **19%**.
- Annualized AI services revenue crossed **\$3.1 billion**.

We had a TCV of **\$9.6 billion** in Q2. We remain confident that TCS is positioned well to convert the opportunities in our pipeline into growth as client spending improves and enterprise AI adoption scales. This concludes our call today. Thank you all for joining us.

**Moderator:** Thank you, members of the management. On behalf of TCS, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

**Note:** This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.