

# Financial Valuation Report: Tata Consultancy Services Ltd (TCS)

October 2025

## Executive Summary

This report summarizes the financial analysis and valuation of Tata Consultancy Services Ltd (TCS) using historical financial statements from Mar-16A to Mar-25A and a five-year forecast (Mar-26F to Mar-30F). The valuation was performed using a Discounted Cash Flow (DCF) model to determine the intrinsic equity value per share.

Metric	Value (₹ in Crores)
Enterprise Value	₹3,96,855.08
Value of Equity	₹4,12,318.08
No. of Shares	361.81 Lakhs
Intrinsic Equity Value per Share	<b>₹1,139.60</b>
Current Market Price (as of model date)	₹3,169.00
Discount/Premium	<b>2.78X Premium</b>

The intrinsic Equity Value per Share derived from this DCF analysis is **₹1,139.60**, which represents a **2.78X discount** compared to the current market price of ₹3,169.00, suggesting the stock is significantly overvalued by the market based on the model's assumptions.

## 1. Historical Financial Analysis (Mar-16A to Mar-25A)

The model begins with a detailed historical analysis of TCS's Income Statement, Balance Sheet, and Cash Flow Statement, covering the period from the fiscal year ending March 2016 (Mar-16A) to March 2025 (Mar-25A).

### Key Historical Observations (Based on Image Data):

- Revenue Growth:** Sales grew from ₹1,08,646 Crores in Mar-16A to ₹2,55,334 Crores in Mar-25A, demonstrating strong growth momentum. The growth rates have been volatile, peaking at 17.58% in Mar-22A and stabilizing to 6.65% in Mar-25A.
- Profitability:** The Earnings Before Interest and Tax (EBIT) margin remained relatively stable, averaging around the mid-20s. The Mar-25A EBIT margin was 24.35%.
- Cash Flow:** Operating Cash Flow consistently remained positive, growing from ₹19,109 Crores in Mar-16A to ₹48,908 Crores in Mar-25A. Net Cash Flow has generally been positive but showed a net decrease of ₹674.00 Crores in Mar-25A.
- Capital Structure (Debt):** TCS appears to have negligible or no long-term or short-term borrowings in recent years (Mar-20A onwards), indicating a very healthy, debt-free balance sheet.

## 2. Intrinsic Growth Rate Calculation (Mar-21 to Mar-25)

The intrinsic growth rate, a key input for the DCF model, was calculated using the formula:

$$\text{Intrinsic Growth} = \text{Reinvestment Rate} \times \text{ROIC}$$

The calculation was performed for the 4-year period from Mar-21 to Mar-25.

Year	ROIC	Reinvestment Rate	Intrinsic Growth
Mar-21	50.55%	0.00%	–
Mar-22	56.20%	11.96%	6.72%
Mar-23	63.51%	-4.30%	-2.73%
Mar-24	63.21%	21.87%	13.82%
Mar-25	60.37%	16.33%	9.86%
<b>4 Year Average</b>			6.92%
<b>4 Year Median</b>			<b>8.29%</b>

**Conclusion:** The model utilizes the **4-Year Median Intrinsic Growth Rate of 8.29%** as the Expected Growth rate for the explicit forecast period (Mar-26F to Mar-30F).

## 3. Five-Year Forecast (Mar-26F to Mar-30F) and Free Cash Flow to Firm (FCFF)

### Key Assumptions:

1. **Expected Growth Rate (Revenue/EBIT):** 8.29% (based on the Intrinsic Growth Median).
2. **Tax Rate:** 30% is consistently applied.
3. **Reinvestment Rate:** 14.14% (based on the 4-Year Median Reinvestment Rate).
4. **Discounting:** Mid-Year Convention is used.
5. **Weighted Average Cost of Capital (WACC):** 16.77%.

### Projected FCFF:

The Free Cash Flow to Firm (FCFF) is calculated as:

$$FCFF = EBIT(1 - \text{Tax Rate}) \times (1 - \text{Reinvestment Rate})$$

Year	EBIT	EBIT(1-T)	Reinvestment Rate	FCFF	PV of FCFF
Mar-26F	₹67,318	₹47,123	14.14%	₹40,458	₹37,440.74
Mar-27F	₹72,898	₹51,029	14.14%	₹43,812	₹34,722.62
Mar-28F	₹78,941	₹55,259	14.14%	₹47,443	₹32,201.82
Mar-29F	₹85,484	₹59,839	14.14%	₹51,376	₹29,864.03
Mar-30F	₹92,570	₹64,799	14.14%	₹55,635	₹27,695.95
<b>PV of FCFF (Total)</b>					<b>₹1,61,925.16</b>

## 4. Terminal Value and DCF Valuation

### Terminal Value Calculation:

The Terminal Value (TV) is calculated using the perpetuity growth formula beyond the explicit forecast period (Mar-30F).

$$\text{Terminal Value} = \frac{FCFF_{(n+1)}}{WACC - g}$$

- **FCFF**( $n + 1$ ) (FCFF for Mar-31F, derived from Mar-30F) = ₹60,246.19 Crores
- **WACC** = 16.77%
- **Terminal Growth Rate** ( $g$ ) = 4.00%

Component	Value (₹ Crores)
Terminal Value	₹4,71,917.75
PV of Terminal Value	₹2,34,929.92

### Equity Value and Intrinsic Value per Share:

Component	Value (₹ in Crores)
PV of FCFF (Explicit Period)	₹1,61,925.16
PV of Terminal Value	₹2,34,929.92
<b>Enterprise Value</b>	<b>₹3,96,855.08</b>
Add: Cash and Equivalents (Mar-25A)	₹15,463.00
Less: Debt (Mar-25A)	₹0.00
<b>Value of Equity</b>	<b>₹4,12,318.08</b>
No. of Shares Outstanding (Lakhs)	361.81
<b>Intrinsic Equity Value per Share</b>	<b>₹1,139.60</b>

## 5. Conclusion and Sensitivity

The final intrinsic valuation of **₹1,139.60 per share** is significantly lower than the current market price of ₹3,169.00. This disparity indicates that the market is either pricing in higher growth and/or lower risk (WACC) than assumed in this model, or the stock is fundamentally overvalued based on these projections.

### Potential areas for sensitivity analysis:

1. **WACC:** A 1% decrease in WACC would substantially increase the Enterprise Value.
2. **Terminal Growth Rate:** A higher long-term growth assumption (e.g., 5% or 6%) would also significantly boost the valuation.
3. **Expected Growth Rate:** The 8.29% growth rate for the explicit period could be conservative if TCS captures greater market share in emerging technologies.

It is recommended to re-evaluate the key inputs (WACC, Terminal Growth Rate, and Expected Growth) against industry averages and analyst consensus to refine the intrinsic value.