

Tata Consultancy Services Limited
Earnings Conference Call
January 12, 2026, 19:00 hrs IST (08:30 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 the conference call, 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 of 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 third quarter of fiscal year FY2026 that ended on December 31st, 2025. 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 factsheet 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 Mr. K Krithivasan, Chief Executive Officer and Managing Director.

K Krithivasan: Hello, 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 Human Resources 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 risks that the company faces. We have outlined these risks in the second slide of the quarterly factsheet, available on our website and e-mailed out to those who have subscribed on our mailing list.

With that, I would like to turn the call over to Krithi.

K Krishivasan: Thank you, Nehal. Good evening, everyone. Wish you all a very very Happy New Year.

The growth momentum we witnessed in Q2FY26 continued in this quarter.

In Q3, we delivered **₹67,087 crore** in revenue. In reported currency, our revenue grew by **2.0% sequentially** and **4.9% YoY**.

In constant currency, our revenue grew **0.8% sequentially**.

Our International services revenues grew by **0.4% sequentially** in constant currency.

Growth was led by Consumer Business Group, Energy, Resources & Utilities, Life Sciences & Healthcare, and Communications, Media & Information vertical.

BFSI and Technology Software and Services did well adjusted for seasonality.

Amongst major markets, Europe continued to do well, while North America was flattish.

Regional Markets continued to deliver strong growth.

All next-gen service lines continued to grow well sequentially.

Most client segments showed improvement. On an LTM basis, this quarter, we gained **2** additional clients generating more than **US\$100 million in revenue, 8 clients** exceeding **US\$20M**, and **23 clients** bringing in **over US\$1M** each.

Our Q3 operating margins stood at **25.2%**, remaining stable sequentially. This excludes one-offs.

We remain steadfast in our ambition to become the world's largest AI-led technology services company, guided by a comprehensive five-pillar strategy. We are delivering accelerated value to our clients through strategic investments across the full AI stack, from infrastructure to intelligence.

Our AI services now generate **US\$1.8 billion** in annualized revenue and is growing at **17.3% QoQ in constant currency**.

In Q3, we continued to win several large deals across markets and industries, including one mega deal win in North America. We achieved an overall TCV of **US\$9.3 billion**. BFSI TCV was at **US\$3.8 billion**, Consumer Business TCV was at **US\$1.4 billion**, and North America TCV stood at **US\$4.9 billion**.

Based on client conversation, strong deal momentum and the leadership we are gaining in AI, we are confident of a good CY2026.

I'll now invite Samir to share further details on our financial performance.

Samir Seksaria: Thank you, Krithi. Good day everyone.

Highlighting the revenue numbers again. In Q3, we delivered **₹67,087 crore** in revenue. In reported currency, our revenue grew **2.0% sequentially** and **4.9% YoY**.

In constant currency, our revenue grew **0.8% sequentially**.

Coming to margins, in Q3, improvements in productivity, pyramid and other operational efficiencies delivered an 80-basis-point benefit. Favorable currency movements contributed an additional 20 basis points. Full quarter impact of the wage increases announced last quarter had a negative impact of 50 basis points. Investments in brand building and partnerships had an impact of 50 basis points. All of the above resulted in a stable operating margin of **25.2%**.

The operating margin excludes a few one-off items recognised during this quarter. These exceptional items relate to severance-related expenses, legal provisions, and the impact of changes in India wage code.

Our net income margin was at **20%**, and our EPS grew **8.5% Y-o-Y**.

Our accounts receivable was at **76 days** outstanding in dollar terms.

Net cash from operations was **US\$1.6 billion**, which is **130.4%** of net income. Free cash flows were at **US\$1.4 billion** and invested funds at the end of the period stood at **US\$7.1 billion**.

Our sustained margin performance and strong cash conversion this quarter, reflects our disciplined execution and strong financial resilience. Backed by a robust balance sheet, we continue to invest confidently in strategic growth areas. Executing our five-pillar AI strategy at speed and scale is central to our transformation into an AI-first enterprise and delivering long-term value for our stakeholders.

Our capital allocation policy remains unchanged, i.e. to give substantial free cash flow back to shareholders. The Board has recommended an interim dividend of **₹11** per share and a special dividend of **₹46** per share.

I would now like to invite Aarthi.

Aarthi Subramanian: Thank you, Samir. Good evening. I would like to wish all of you a great year ahead.

As you know, this quarter we hosted our Analyst Day on 17th December 2025. We provided a comprehensive view of our strategy and approach to realize our stated ambition. We covered:

- Our full stack AI play across Infrastructure to Intelligence
- Provided details on the 5 strategic pillars powering our AI transformation
- We also provided a complete view encompassing employees, customers, partners and the larger AI ecosystem stakeholders.

From a Q3 perspective, multiple service lines delivered growth. AI & Data, Enterprise Solutions, IoT and Digital Engineering, and Cybersecurity led the growth this quarter. Our annualized AI revenue crossed **US\$1.8 billion** with **17.3% quarter-on-quarter growth in constant currency.**

The rate of production deployments for AI projects in 2025 showed a marked improvement over the prior year, with performance in Q3 further reinforcing this positive trend. Last quarter, I talked about how our AI Innovation Days and Rapid Build approach are making AI real for our customers. With many of the enterprises looking to jump start and scale their AI transformation, AI Innovation Days and Rapid Builds are fast becoming our core levers to drive differentiated customer engagement.

I would now like to share updates on key pillars of our AI transformation.

tcs^{AI}: Internal Transformation

In Q3, we continue to democratize access to all AI tools and build on the success of the world's largest AI Hackathon in Q2. "AI Friday Hackathons", the in-person immersive format has created significant engagement and buzz amongst our employees. It has enabled them to explore and develop their talents, while also allowing them to learn about the fast-changing capabilities of AI. This initiative has been particularly effective in bridging boundaries between seniors and juniors as well as experts and beginners. 26

teams reached the finals, which were conducted in Q3, generating more than **15 patentable solutions**.

We also continued to scale our own adoption of AI across our enterprise.

This quarter we launched AI-First solutions in hiring and employee onboarding. We also scaled our AI-powered personalized learning platform, the “Learning Coach”.

Redefining All Services

Redefining Service Lines with AI is a strategic priority.

During the Analyst Day, we shared details of our unified Human+AI Services Autonomy Model. This includes five levels of autonomy from using AI as a tool at Level 1 to building an Agentic enterprise at Level 5. This has been instantiated for every service line.

This structured approach has been well received by our customers as it aligns to their AI-driven transformation initiatives with clearly defined goals and outcomes. For example:

- For a global insurer, we improved software engineering practices from Level 2 autonomy to Level 3 autonomy, thereby delivering 2x improvement in deployment frequency and 30% reduction in time to market.
- For a leading UK airline, we have compressed major-incident cycles by half, resulting in 40% higher operational efficiency using our ‘March to Zero’ IT Operations framework.

Making AI Real for Clients

In Q3, we sustained our focus to innovate, build, and scale AI solutions for clients across industries. We see the innovate-to-build cycle accelerating sharply, with over **three times** more rapid builds, that we delivered for our customers this quarter.

We set up two AI Labs in India—one for a leading US insurer to scale agentic transformation across insurance value chain and software engineering; and another for a regional US bank for Agentic AI-led Operations in KYC and AML investigations. These labs are helping our customers incubate and create a strong pipeline for AI rapid builds.

We also delivered several high-impact AI implementations, showcasing measurable business value by combining traditional AI, GenAI and Agentic AI capabilities. I would like to share few examples of our customer success stories this quarter.

- Our team played a key role in reimagining store operations, with multiple agents automating routine interventions, boosting sales by 25% and saving store managers 90 minutes on their weekly efforts.
- TCS won the IoT Breakthrough Award 2026 and was recognized as the ‘AI Powered IoT Solution Provider of the Year’. TCS is the only GSI to win in this category. We developed this solution for a leading integrated container logistics company. TCS brought together traditional AI, Vision AI and IoT solutions to deliver significant improvements in safety posture at the terminals.

In summary, Q3 saw good traction across services in a traditionally soft quarter. Going forward, we will continue to engage with our customers with a two-pronged focus:

- First, ‘Get AI ready’: Partner with them to build a strong enterprise technology foundation required for their AI transformation.
- Secondly, ‘Lead with AI’: Engage with business and technology teams to help them establish early competitive advantage in AI.

Thank you. I would now like to hand over to Sudeep.

Sudeep Kunnumal: Thank you, Aarthi. Hello everyone again. Wish you all a very Happy New Year.

Our associates are at the heart of our transformation into an AI-first enterprise. The passion and commitment our associates show in mastering future-ready skills gives us the confidence to innovate responsibly and deliver sustainable value as AI reshapes the services landscape.

At the end of Q3FY26, our global headcount stands at **582,163**, with associates from **149** nationalities and **35.1% women**. Last twelve months (LTM) voluntary attrition in IT Services stands at **13.5%**, up by 20 basis points sequentially.

We continue to make significant investments in building a high-performance workforce with future-ready skills.

- **51.2 million** learning hours have been completed year-to-date (YTD).
- **3.8 million** competencies have been acquired YTD.

- We now have **217,000+** employees with higher order skills in AI, which is a **3X** increase over last year.

The second aspect of our **talent transformation is role evolution**.

AI is creating new roles, such as rapid-build engineers and leads, which are increasingly vital for the future. We are currently working on aligning our role framework with AI as the centerpiece. All components of this framework are being systematically reviewed to ensure future readiness.

The third aspect **is future-ready hiring**. We continue to focus our efforts in attracting top talent globally. Over the last year, we have doubled down on advisory and consulting talent across the big bets in areas like cybersecurity, enterprise solutions, cloud, AI and Data and positioning them closer to customers. Over **50%** of our experienced hires are coming with next-gen skill sets. We hired significant number of AI-native fresh graduates. Our Initial Learning Program (ILP) has been enhanced to include Gen AI as an integral part of the curriculum. All trainees now have access to a comprehensive AI ecosystem of learning, hands-on assessment platforms.

As part of our pioneering industry-academia collaboration, we are actively involved in designing of industry relevant curriculum. TCS APEX Mega-FDP is focused on faculty development from academia with knowledge of new-age technologies.

Our future ready talent model and our talent development programmes are gaining market recognition.

Recently, we :

- Ranked #1 in **Everest Group PEAK Matrix® for Talent Readiness for Next Generation Data, Analytics, and AI Services**
- Featured on **Forbes America's Best Employers for Engineers 2026**
- Ranked #1 Technology Services Firm globally in **Newsweek Magazine's 2026 ranking of America's Most Reliable Companies.**

I would now like to invite you back, Krithi.

K Krishivasan: Thank you, Sudeep.

Let me now share more details on our performance across the industry verticals:

- **BFSI** continues to show good growth momentum despite the current quarter seasonality and being impacted by furloughs. BFSI achieved an overall **TCV of US\$3.8 billion, up by US\$ 600 million QoQ and YoY.** This includes one mega deal in BFSI North America. This comes on the back of a mega deal that we had announced in the previous quarter as well. Even on exclusion of the mega deals, BFSI TCV and pipeline continues to be robust.
 - BFSI organizations continue to exercise cost discipline while prioritizing targeted investments in resilience, compliance, and operational efficiency. Technology expenditures remain centered on validated solutions and simplified architectures. AI adoption is increasing, underpinned by robust governance and regulatory alignment, although agentic AI implementation is proceeding cautiously.

- Retail banks are focused on enhancing customer experience, adopting AI applications, leveraging ecosystem partnerships, and strengthening fraud prevention efforts. Corporate banks are modernizing their operations through cloud migration and digital enhancements. The payments sector is experiencing rapid transformation driven by regionalization, whereas capital markets and asset management sectors maintain strong performance.
- Modernization initiatives are being prioritized by BFSI clients. The insurance industry is adapting to new sources of disruption, including emerging risk products and AI integration. Brokerage and agency channels are consolidating in response to shifting market dynamics.

This quarter, several significant project deployments were realized:

- For a major global insurer, TCS implemented an AI-powered underwriting solution that shortened quote turnaround from weeks to hours with improved accuracy.
- For a Finnish insurance company, an AI-driven quality assurance framework was delivered, reducing manual testing efforts by 70%.
- TCS successfully launched three large-scale, cloud-based modernization programs for leading BFSI clients in Q3, resulting in quicker product launches, strengthened security postures, and enhanced operational efficiencies.

- Our **Consumer Business Group** saw sequential growth led by Retail, Travel and hospitality segments, reflecting pockets of resilience and cautious optimism. Americas, Europe, and APAC grew, while the UK faced ongoing challenges.
 - Retailers focused on value-driven strategies, digital engagement, and AI-powered personalization to offset cost pressures and margin challenges.
 - CPG companies prioritized health, premiumization, and operational efficiency through AI and automation.
 - Travel, transport and hospitality (TTH) benefited from strong international travel and digital transformation, though domestic markets remained subdued.
- The **Life Sciences & Healthcare sector** saw good growth momentum this quarter. The sector is undergoing multiple shifts across industry segments, led by regulatory interventions, impact of AI, risk and security challenges and changing consumer behaviour.
 - Biopharma manufacturers are heavily investing in automation, continuous manufacturing, robotics, and AI-driven labs to enhance efficiency and sustainability.
 - Majority of life sciences companies have adopted or piloted generative AI, especially for drug discovery and automating literature reviews.
 - Investments in digital health tools, telemedicine, wearables, and remote patient monitoring are surging. AI-enhanced diagnostic tools, such as

radiology AI, and rapid pathogen detection systems, are high priorities.

- Providers and payers are spearheading AI deployment in revenue cycle management, clinical workflows, utilization, and network management, moving beyond pilot projects.
 - Spend on cloud infrastructure, cybersecurity, data governance, and edge computing is on the rise.
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- **Manufacturing** posted marginal growth in Q3. While the automotive sector remained subdued, other industries demonstrated growth momentum even in the face of seasonal challenges. Investments in smart manufacturing persist, as both agentic and physical AI enhance competitiveness, agility, and resilience during ongoing market uncertainty. In this quarter, TCS delivered several AI-powered agents, specialized fine-tuned models, and vision-based solutions that automate complex tasks, enhance customer and dealer experiences, and drive operational efficiency. These initiatives have resulted in measurable business outcomes for our clients such as reduced manual effort, accelerated time-to-market, improved decision-making, and significant cost savings.
 - We expanded our 18-year partnership with **ABB**, a global leader in electrification and automation. The partnership aims to modernise ABB's global hosting operations, simplifying its IT landscape, and strengthen its digital foundation to drive resilience

and innovation. As part of this multi-year engagement, TCS will operationalise ABB's Future Hosting Model, a next-generation modular IT infrastructure designed to streamline systems. This model will enable predictive operations, faster service restoration, and continuous security assurance through its AI-powered Zero Ops framework.

- Our **Technology Software and Services** de-grew in Q3FY26 primarily due to typical Q3 seasonality. While the big tech companies are investing significantly in AI infrastructure and building frontier AI capabilities, the broader industry is facing ongoing geopolitical uncertainty, trade restrictions, and evolving data and AI regulations. This quarter, workforce restructuring continued, with major layoffs among top clients. Customers are focusing on AI development, operational efficiency, and manufacturing diversification to manage risks and drive growth.
 - Semiconductor and Electronics segments are seeing moderate growth, especially in AI hardware, while Industrial and Automotive Electronics remain weak. Investments in semiconductor manufacturing and R&D are rising, particularly in the US, India, and Europe. Network growth is flat overall, with Enterprise Networking benefiting from increased AI infrastructure demand. Software companies are steadily integrating Agentic AI and moving products

to the cloud. Professional Services continue to experience slower growth.

- Cost optimization is a key client priority. We are supporting digital transformation and efficiency through AI-powered operations, modernization of engineering environments, SaaS optimization, adoption of open-source network technologies, and the shift from x86 to ARM-based devices.
- A prominent North American software company has engaged TCS to provide down-sell prevention and churn mitigation services for end-users on one of its flagship enterprise platforms. TCS will implement a robust execution model across multiple regions, aiming to enhance platform adoption, deepen customer engagement, and minimize churn. These objectives will be achieved through the integration of AI-driven solutions and streamlined service delivery, ultimately improving the overall customer experience.
- **CMI** showed positive growth momentum this quarter, driven by clients seeking measurable ROI on automation, AI efficiency, ad monetization, and resilient IT. We are addressing these needs with outcome-based transformation, modernizing operations and embedding AI across processes. We are also actively leveraging strategic partnerships with hyperscalers like Microsoft, Google, and NVIDIA to accelerate AI capabilities, co-innovate with

clients, and deliver rapid solution builds that demonstrate business value.

- **ERU** posted strong growth this quarter. The ERU sector is rapidly moving toward a low-carbon future, making significant investments in renewable energy, electrification, and advanced storage solutions. Companies are leveraging AI-driven platforms and providing workforce training to boost efficiency and adaptability. While the Americas, APAC and MEA regions showed notable growth, UK & Europe, despite a short period of slower progress, continue to prioritise clean energy initiatives and digital enhancements, supporting ongoing global development. The demand is robust for our AI-led services.
- **Growth Markets:** Growth Markets remain resilient despite geopolitical challenges, with steady enterprise IT spending and increasing public sector investment in digital infrastructure. Revenue growth is led by the enterprise segment in India and strong public services momentum across India, APAC, and MEA, with broad-based service revenue gains. Public Services continues to deliver standout wins.

I will now talk about the fifth pillar of our strategy, AI ecosystem play.

In Q3, we continued to establish ourselves deeply into the AI ecosystem:

- During the quarter, we announced a **US\$1 billion equity partnership with TPG**, a leading global alternative asset management firm to support the growth of our GW-scale AI data center **infrastructure build out**. We are making good progress in our discussions with prospective clients.
- On M&A, we announced the acquisition of **Coastal Cloud**, in the U.S. to strengthen our Salesforce and AI consulting services. Together with ListEngage, we are now among the top 5 global Salesforce consultants, gaining over 500 experts and 3,400 certifications, and boosting our CRM capabilities. These acquisitions also strengthen our capabilities in advisory, implementation, and managed services, providing a complete multi-cloud offering across all Salesforce modules. The acquisitions also deepen our partnership with Salesforce through established partner board roles and summit partnerships and extend our reach into new market segments. The acquisition of Coastal Cloud is pending regulatory approval.

With this, I will now open the line for questions.

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

Sudheer Guntupalli: I am just doubling down on your initial remark of the confidence of the good CY '26. Maybe if you can contextualize the statement, it a bit more there, it will be helpful. Are you seeing any green shoots of improvement in discretionary or short-cycle projects that is giving you this confidence? Or also, if we have to see a demand recovery

in international markets in CY '26, which specific segments do you think should drive this?

K Krithivasan: Thanks, Sudheer. In Q2, we had called out that the overall demand environment is improving compared to Q1. In Q3, that trend continues. And Aarthi also mentioned about a number of Rapid Builds projects in AI we are doing.

Essentially the short-cycle project side, the decision-making is faster based on the ROI. We see a steady increase, and you can see that reflected in our AI revenue that we are reporting, and this is across all industry segments. AI and data are continuing to drive growth for us.

Sudheer Guntupalli: Sure, sir. Some of the key segments like North America and UK across geographies have either declined or were soft in this quarter, so seasonality and furloughs alone explain this? Or is there any other issue along with the normal seasonality that might be playing out here?

K Krithivasan: It is primarily seasonality here, Sudheer.

Sudheer Guntupalli: All right, sir. Thank you and all the very best.

K Krithivasan: Thank you.

Moderator: Thank you. We'll take our next question from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: The first is the increase in other expenses within the SG&A. There's a very sharp increase — about 77% year-on-year and 41% quarter-

on-quarter. Could you talk a bit about that? The other expenses are about ₹7.3 billion this quarter.

First question is on the AI run rate. It's a strong number, \$1.8 billion. Could you talk a bit about whether this is preparing the customers' overall landscape for adopting AI, or are these really specific AI use cases? Which are you seeing more of?

Samir Seksaria: First on the other expenses part, the increase both sequentially and Y-o-Y is primarily on account of legal expenses, also from leading from M&A-related ones, the legal fees, etc. Marketing initiatives has increased. A lot of our events, etc. converged into Q3 and also includes CSR initiatives.

Ravi Menon: Thank you. So some of this will recur , some of it won't recur, right?

Samir Seksaria: Yes.

Aarthi Subramanian: To answer your question on AI. These AI revenues, like in the Analyst Day, we had reported US\$1.5 billion annualized, and this quarter, the number is US\$1.8 billion annualized. This includes primarily AI programs across industry value chain. And the data efforts that are required to deliver those AI projects.

Let's say, we are doing software engineering, we are using AI for testing. Those are not included. So primarily 2 types of AI programs, AI for business transformation across industry value chains, across verticals. The second is when you use AI for modernization. Those are the 2 buckets I'll call.

Ravi Menon: Thanks. Perfect.

Moderator: Thank you. Next question is from the line of Vibhor Singhal from Nuvama. Please go ahead.

Vibhor Singhal: Krithi, you mentioned that the weakness in the BFSI segment was quite seasonal in nature and we had a good amount of business in this quarter and the last quarter as well. Going forward, let's say, next few quarters, do we expect this growth momentum to reflect in the revenue growth itself for BFSI?

Similarly, in the retail business, we've seen good pickup. Was the retail business kind of driven by the seasonality in this quarter? Or do you see the growth momentum in the retail business also to sustain in the coming quarters? If you could just answer that. After that, I have a follow-up question.

K Krishivasan: In BFSI, it's primarily seasonality that impacted us in this quarter. But the overall deal momentum that we are seeing excluding the seasonality, the growth we saw in the accounts, gives us the confidence that BFSI will return to growth. If you notice that before this quarter also for the past few quarters, we had grown in BFSI, so we should return to growth and that should continue.

Retail, the seasonality is not the main reason. Again, in retail, we have started seeing growth across all sectors. While there are still some pockets of weakness, like I called out domestic airline is still weak, but international TTH is doing well. Essential in retail is doing well, but there is some softness in fashion and specialty. So excepting those pockets of weakness, we are generally seeing all-round pickup in CBG segment as well.

Vibhor Singhal: Just one follow-up on that, you had mentioned that we are looking to report a higher growth in the developed markets this year. I mean do you think we can still achieve that in this year? And do you think this would also be the case going forward in FY '27 over a cycle, just on the developed markets?

K Krishivasan: Yes, Vibhor like we did tell in the past that our international market, we will continue delivering a higher growth. Now that we only have one quarter left, but it continues to be our aspiration that we would make every effort. We saw demand slowly picking up in Q2 that continued in Q3. We are taking every step to ensure that we grow better than FY '25 in FY '26 in the international market.

Vibhor Singhal: Thanks a lot, Krithi. Just a couple of questions, for Samir. Sir, just two things. One is we had a very strong margin performance in this quarter despite the 2-month wage hike; in fact we were able to report flat margins. Now given that we have two, three quarters in which there will be no wage hike and no structural headwind per se. Do you believe we are getting closer to that aspiration band of 26% to 28% margins in the coming quarters?

Samir Seksaria: If you look at it from a headwind perspective, Vibhor, apart from the macro uncertainty, I think if you go back to last year, we had an annual intervention cycle coming in Q4 that could be a headwind. Other than that, I think nothing major, except the investments which we have been making and calling out. But irrespective of that, while we will not shy away from making investments, we want to inch closer to our 26% to 28% band and we'll make all efforts to climb towards 26%.

- Vibhor Singhal:** That is great to hear. Just last one from my side. Sir, on the labor law provision that we have taken, I know this is going to be an industry-wide practice. In fact, not just industry, I think all of us will be impacted in terms of profits. Could you just speak a bit about the nature of this expense and is this, I mean this is an exceptional item. From next quarter onwards, how does the labor laws impact will be taken care of in the entire P&L?
- Samir Seksaria:** Basis the guidance received overall on the new labor code, the way they have been implemented, the guidance we have received and factoring in some bit of restructuring. We have made an assessment and made a provision of ₹ 2,128 crores. The nature of it, we have called out in our financial statements, gratuity amounts to about ₹ 1,800 crores and leave liability is balance ₹ 300 crores. This is all past service costs, and hence called as one off. We expect the ongoing impact to be minimal, around 10 to 15 basis points.
- Vibhor Singhal:** Going forward, next quarter onwards we will just take the impact of this of around 10 basis points to 15 basis points above the EBITDA in our normal operating margin, there will be no other exceptional items from Q4?
- Samir Seksaria:** On the labor code we don't expect any incremental one-off's. Unless the rules give more clarity and there is something else which needs to be addressed, because the rules came into effect, and the guidance came towards the end of December. We have made an assessment and done the provision basis that. And we'll call it out if there is a change in the understanding of our rules.

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

Moderator: Thank you, Next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Good evening and Happy New Year. I had few questions. North American market has been relatively soft over the last 12 quarters or so. You think with international coming back, North America will really start contributing and we should start seeing this edging up from a growth perspective?

The second is, do you think the restructuring costs are largely over? And then the third one is, do you think we should see any revenue from BSNL this fiscal or it just moves over? Lastly your thoughts on the recent development on credit card rates in the U.S., do you think that in some form, impacts your payment customers and what could be the exposure there?

K Krishivasan: Nitin, I will take the question on North America, BSNL, Credit card and then invite Sudeep to talk about the restructuring. In North America, like we discussed the market in general, we find that the customers are willing to look at ROI-based decision making in terms of new projects and we also see the decision-making cycle has reduced compared to the past and the momentum we saw in Q2 continued.

We are optimistic that North America will return to better growth than before. In terms of revenue from BSNL, the revenue that we recognized this quarter is very similar to the revenue that we got from BSNL last quarter and unless formal final PO is received, we

don't expect the revenue pickup in BSNL (for the 2nd phase), but we will keep you posted whenever it happens.

On the credit card, there are both positives and negatives, like while there could be some losses the banks may suffer in terms of interest income, but it also ensures that there is more spend happening because the interest rates are capped.

I feel that it will have a two way impact, certain industries will benefit. Even in banking, the new spend can increase while the old spend interest could come down. So it will have a very nuanced or probably multilayered impact, we have to wait and watch. But on net-net basis, we don't see a major impact because of this particular rule that's come in. I'll now invite Sudeep to update you on the restructuring.

Sudeep Kunnumal: Thank you, Krithi. Hi, Nitin. So, as I mentioned, we continue to hire and seek for top talent, both from the lateral market and from the campuses as well. While we are in that journey, what we had announced as part of the restructuring, we continue to look for support people with deployment into future role.

Wherever we are not finding success in re-deployment - is where we are releasing the workforce. So, we said we will continue this exercise till the end of this year. And in this quarter, we released approximately 1,800 people with all the due care and compliance to all the laws of the land. And as communicated earlier, we expect it to continue into the next quarter as well.

But we are not really going after a number. It's purely a process, we review it. Only if there is a genuine reason if we need to release is when we'll exercise that option.

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

Moderator: Thank you. Next question is from the line of Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: Hi, good evening. My first question was that you spoke about that you are targeting to improve your international revenue this financial year. Now looking at your book-to-bill ratio over the last 2 years, it has been in the range of 1.3x to 1.5x.

This year, it has been largely below 1.3x, are you comfortable that this level of order book can help you continue to see revenue growth improvement beyond fiscal '26 as well? Or you would need to see an improvement in the deal wins?

K Krithivasan: Kumar, if you look at this year, so far in the first three quarters, our order book is in the range of about US\$28 billion to US\$29 billion. If this trend continues, we will be somewhere closer to about US\$38-39 billion for the year, which will be one of the highest.

We believe this order book will help us in growing in FY '27 as well. We are now quite comfortable, Kumar, with the order book itself. I think as far as international revenue in Q4 is concerned, we are optimistic, and we'll take every step that's required to see we reach the aspiration of having a revenue better than FY '25.

Kumar Rakesh: Thanks, Krithi. My second question was on the AI services revenue, which you spoke about is growing pretty strongly on a quarter-on-quarter basis. Can you give some more color on what is driving that growth? You also spoke about that Agentic AI implementation is proceeding cautiously. Why is it so?

Aarthi Subramanian: I think, Kumar, if you look at the AI revenues, the growth is coming from across verticals and these are business impacting programs that we are delivering for our customers. If you really look at it, I think when GenAI is something we all started talking about sometime late towards 2022 and early 2023.

For about 1-1.5 years until about mid-2024, there was a lot of experimentation, PoCs and people were understanding the power of the technology. But if you really look at 2025, I think the adoption in our customer landscape has significantly increased, where we have now shifted from experiment PoCs and pilots to really, ROI-led scaled implementations, and that's what is driving this growth.

And Agentic AI getting introduced early in 2025 also created good momentum because traditional AI, Generative AI and Agentic AI, the combination is what is helping us deliver solutions that create value for our customers.

Kumar Rakesh: Thanks. Samir, just one clarification on SG&A expense increase, which you called out. What all would be one-time in nature in that? I would assume that legal expenses wouldn't recur from the next quarter onwards, so if you will be able to quantify within that?

Samir Seksaria: The legal expenses has a combination of some ongoing elements also and the legal fees related for the concluded legal case would

have been one-time. It would be hair splitting, calling out each line item separately and its impact, but you would expect some other one-offs like the CSR provisions, etc, might continue into the next period.

Kumar Rakesh: So essentially, the SG&A expense in this quarter largely would be an ongoing expense. Is that a fair way to say that?

Samir Seksaria: Partly, it's a mix of both, but I'm not going to hair split into how much it is recurring or non-recurring. You could say about 10 to 20 basis points is one-time.

Kumar Rakesh: Got it. Thanks a lot.

Moderator: Thank you. Next question is from the line of Keith Bachman from BMO. Please go ahead.

Keith Bachman: Yes. Thank you very much. I was hoping you could talk about what's the changes in economics on renewals today or currently versus, say, 2 years ago? And what I wanted to understand is, at the time of renewal, what's the price difference on the like-for-like work at the time of renewal?

How much more are you incrementally focused on selling incremental services to offset the price declines that I think are largely driven by the benefits of AI? But if you could just speak to broadly what renewals look like today versus, say 2 or 3 years ago?
Thank you.

K Krishivasan: Bachman, if you look at the renewal, most of the renewals would bake in some productivity. But that is business as usual, that is I

don't think related to AI. Even without AI coming to picture, most of the renewals have some productivity baked in. It could weigh in the range of 10%-15% over a term of the contract.

We have seen every time a renewal happens, it increases the scope of operation that we do. So, net-net, you'll find very often when the renewal happens, the top line or the total quantum of revenue doesn't decrease, but the quantum of work that we commit to deliver to our customer, that increases, offsetting the top line, because the productivity is achieved by TCS, you don't see a hit in realization, but the quantum or the amount of work we deliver increases.

Now with AI coming in, our approach has always been that we proactively go to customers even before the start of the renewal cycle. We go to customer with opportunities to deploy AI and how we can achieve a certain amount of productivity through AI. Once we renew it, at the time of renewal, it embeds AI productivity and very often, as I said, increases the scope of our work as well.

Keith Bachman: So is your contention that 10% to 15%, you're suggesting that's the same what the renewals the price discounts at time of the renewal, that's where it was 2-3 years ago. You're saying that's a consistent number?

K Krishnaswamy: It could vary. I said just to give it as an example. But the point I'm trying to make is there is a productivity, but there is a volume of work that is being delivered that also increases. So by and large, the total value of the contract doesn't change or reduce much, but

we end up delivering more volume of work, but at a higher productivity.

Keith Bachman: The second question I had was similar. As you're bidding for net new work and you're bidding in cost benefits or supply the benefits, if you will, is there more variance allowed in the contracts? What I mean by that is, are you structuring the contracts differently in that you allow for if the cost curves are better, then you allow for some sharing with the clients, if the benefits that you predicted in the contracts aren't as good than the client shares back with you. Is there more flexibility because you're adopting new technology as you're bidding out multiyear contracts?

K Krishivasan: We have been quite open to that. But at the same time, it's fair to say most contracts assume a fairly aggressive AI productivity to come in and baking the expected productivity at the beginning of the contract itself. But we would be quite open to work with our customers where we are able to get or achieve greater productivity.

If you have to share it, we would be quite open. But to be fair, we are not seeing the type of contract where the flexibility is built in within the contract. Most contracts assume a certain productivity over a period of time and are priced accordingly.

Keith Bachman: All right. That's it for me. Thanks.

Moderator: Next question is from the line of Dhanshree from Choice Institution Equities. Please go ahead.

Dhanshree: Thanks for taking my question. As you have already called out AI revenues of US\$1.8 billion, so if you can give some more color in terms of how our pipeline is led by AI? What is the growth in last 9 months in this pipeline? Growth that we see going ahead?

Aarthi Subramanian: Dhanshree, like we said, we are seeing increased momentum quarter-on-quarter and in Q3, it's the first time we started publishing our annualized AI revenues. In mid-December, this number was US\$1.5 billion annualized and quarter closure is US\$1.8 billion. We are seeing increased traction, good momentum across our client base and we expect AI revenues to continue to grow with a strong growth rate.

Dhanshree: Some color on data center operations, when the actual operations will start favoring the numbers, some cues on the timeline would be helpful.

Samir Seksaria: Dhanshree, what we had called out is, that we would be first announcing an anchor customer and basis the requirements of the anchor customer, we are going to do the build-out. Typically build out would require about 18 months, post which revenue should start ticking in.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for closing comments. Over to you.

K Krishivasan: Thank you, operator.

In summary,

- The growth momentum we witnessed in Q2FY26 continued in Q3FY26.
- In Q3 FY26, our Revenue grew **0.8% sequentially in constant currency**, with an operating margin of **25.2%** and a net margin of **20%**.
- Our AI services now generate **US\$1.8 billion** in annualized revenue and is growing at **17.3% QoQ in constant currency**.
- Our TCV was strong, at **US\$9.3 billion**, including a mega deal win.

I would like to conclude by reiterating that we remain steadfast in our ambition to become the world's largest AI-led technology services company, guided by a comprehensive five-pillar strategy and our investments in becoming a full stack AI services player across infrastructure to intelligence.

These coupled with enduring partnerships and disciplined execution position us uniquely to gain leadership in AI.

With that, we wrap up 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.