Tata Consultancy Services Limited
Transcript for Earnings Conference Call
Held on July 09, 2026,19:00 hrs IST (08:30 hrs US ET)
For discussing Financial Results for Q1 FY2027 ended on June 30, 2026

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 - Investor Relations at TCS. Thank you and over to you.

Nehal Shah: Thank you, Yashashri. Good evening and welcome everyone. Thank you for joining us today to discuss TCS's financial results for the first quarter of FY2027 that ended on June 30, 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 today on this call to discuss our results. We have with us today Mr. K Krithivasan, Chief Executive Officer and Managing Director.

K Krithivasan: Hi, good evening, 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 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 Q1 FY27 performance.

First, Q1 FY27 reflects continued growth momentum and the strength of our strategic positioning despite the geopolitical and macroeconomic headwinds.

Our Q1 revenue stood at **₹72,275 crore**, growing **2.2%** sequentially and **13.9% year-on-year**. This is the fourth consecutive quarter of growth. Growth was led by BFSI, Technology, software and services, regional markets, and products and platforms.

Second, strong order book closure and large deal momentum continued. We delivered a TCV of **$9.5 billion**, including net new AI-led business transformation deals such as,

- US$ 800 million mega deal with **SKF**; 6th mega deal win in the last 5 quarters
- Multi-million $ strategic partnership agreement with **ServiceNow**
- Multi-million $ deal with **Europe-based Fortune Global 50 firm**

The third key takeaway is our AI services revenue continues to accelerate. At the end of Q1 FY27, it stands at **$2.6 billion** in annualized revenue, which is up 13.6% QoQ.

Fourth, client priorities are increasingly aligned with our focus areas of AI-led transformation, modernization, cybersecurity, sovereign cloud, platform rationalization, and vendor consolidation. We maintained healthy client additions across $10 million+, $5 million+, and $1 million+ revenue bands on a sequential basis.

Fifth, our operating margins stood at **24%,** down 130 bps sequentially, primarily due to wage hikes.

Finally, we continue to advance our Infrastructure to Intelligence strategy through unique partnerships with frontier AI companies and new launches:

- **We announced a global premier partnership with Anthropic**, which gives us early access to Claude family of models, 50,000 licenses, a joint GTM campaign, co-creation of industry solutions, and TCS iON as a training and certification partner.
- **TCS also became the first GSI partner for Mistral AI**. Together, we will build sovereign and custom AI models for enterprises and establish a dedicated COE for developing industry solutions across BFSI, healthcare, manufacturing, and public sector.
- **We also launched TCS SovereignSecure Cloud™ for Europe**, directly addressing rising demand from governments and regulated enterprises for compliance, sovereign, and AI-ready cloud infrastructure. This strengthens TCS's leadership presence in Europe as clients prioritize data residency, operational control, and geopolitical risk mitigation.
- We launched a dedicated **Global Value and Innovation Center business unit** to help enterprises build, operate, transform, or divest global capability centers.
- **HyperVault** is strengthening TCS's market positioning and deepening 360-degree partnership with clients and ecosystem partners. In Q1 FY27, these partnerships enabled two very large IT services deals which were net new for us.

I will now invite Samir, Aarthi, and Sudeep to go over different aspects of our performance during the quarter. I'll step in later to 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 **₹72,275 crores**, a growth of **2.2% QoQ** and **13.9% YoY** in rupee terms. In dollar terms, revenue was **$7,624 million**, which was **flat growth** sequentially and **2.7% YoY**. In constant currency terms, our growth was **40 bps sequentially** and **3.2% YoY**.

This quarter, we have undertaken a refinement of cost categories to address the previously elevated 'other expenses' to provide a clearer view of the underlying cost drivers. This change has no impact on overall expenses or operating margins, and prior periods have been aligned for comparability. Prior four-quarter comparative details are available on our quarterly fact sheet.

Operating margin for the quarter was **24%**, declining **130 bps** sequentially. In Q1, we rolled out annual increments for our global workforce, which impacted margins by **170 bps**. We strengthened our partnership ecosystem and made targeted investments, which we were able to partly offset with **40 bps** of currency benefit and operational efficiencies.

Our strong profitability allows us the ability to make significant investments which are aligned with our aspirations. We are investing in AI capabilities, talent transformation, partner ecosystems, platforms, domain solutions, and go-to-market capacity. These investments are necessary as client demand increasingly requires integrated offerings across the Infrastructure to Intelligence AI stack. At the same time, we continue to drive operational rigor through pyramid optimization, productivity improvement, better resource fulfillment, automation, and disciplined cost management.

As we have demonstrated in the past, our approach is to not optimize margins in isolation, but to invest in capabilities that strengthen our long-term competitiveness while continuing to deliver industry-leading profitability and return ratios.

Net margin for the quarter was **19.2%.** DSO stood at **74 days in $ terms** and constant sequentially.

Our cash conversion remained strong at **93% of net income**. Invested funds at the end of the period stood at **$5.3 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'll now invite Aarthi.

Aarthi Subramanian: Thank you, Samir. Good evening.

Q1 saw strong growth momentum across our services portfolio with multiple AI transformation wins. AI demand continues across IT operations, software engineering, modernization, business process transformation, and enterprise platform implementation.

The nature of engagements ranges from AI-led optimization to large-scale AI-native transformation programs.

Let me share a few of our key deal wins this quarter.

- We signed a mega deal with **SKF** to enable transformation across infrastructure, applications, enterprise systems, and business processes. The program will help SKF build an AI-native enterprise through global process standardization on S/4HANA, AI-led IT-Ops, and business transformation to drive revenue growth, working capital improvement, and predictable IT costs.
- For a large **North American utility major**, we are transforming a decade-long collaboration into a future-ready operating model. The

engagement will modernize operations across grid management, customer experience, asset management, and workflow enablement, while building a scalable foundation with strong AI governance and lifecycle management. TCS won this renewal with an AI-first proposition for existing services and was also chosen as a partner for transformation of the utility major into an AI company.

- This quarter, we also had **multiple deal wins in autonomous GBS** across HR, finance, and customer experience. Agentic operating model is at the core of our customer value commitment in BPS.

Agentic AI has rapidly dominated customer conversations this year and is increasingly shaping how we design and deliver solutions.

With growing adoption, AI governance is becoming a top priority for enterprises. TCS is investing in enabling customers deploy and manage AI securely through our agentic control plane, providing governance, observability, lifecycle management, and cost control.

Let me take you through how agentic AI is being deployed across enterprises for IT and business transformation.

- AI agents in software engineering, IT operations, and technology modernization are becoming mainstream. Enterprises are combining agentic capability from their existing tool investments with contextual agents for improving productivity and resilience, while accelerating time-to-market as well.
- For a large retailer, 70 agents are orchestrating IT-Ops across more than 60 infrastructure and application workflows, integrating with the customer's ITSM tools. Continuous 24/7 monitoring and 24/7 operations have shifted from largely human monitoring to AI-led monitoring. The transformation has resulted in 30% faster remediation and 80% fewer incidents.
- Business process transformation with agentic AI will be a significant opportunity across industries. Enterprises are looking at both

redesigning workflows with AI as well as driving process optimization with AI. TCS is building domain-specific workflow blueprints and agentic vertical platforms with pre-built agents across industry domains to accelerate business transformation.

Let me share an example of how AI agents are working alongside humans to transform worker compensation workflow for a global specialist insurer. TCS has deployed seven AI agents, including specialized medical and fraud review agents, who are operating alongside human examiners.

This human plus AI operating model has cut claim settlement by 40%, replacing a legacy process that relied on several sequential human handoffs. The result is faster and more consistent claim operations with meaningful impact on cycle time and customer experience.

We will continue to drive focused execution on our Infrastructure to Intelligence strategy that we announced last year. As all of us know, AI is evolving at unprecedented speed with model capabilities emerging rapidly. We continue to integrate the latest advances into our services, platforms and solutions in collaboration with our partners.

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

Sudeep Kunnumal: Thank you, Aarthi and hello everyone.

Our workforce at the end of quarter stood at **593,798**. This quarter, we completed the annual salary increments for all associates globally and also aligned salary structures of our India associates with the new India Labor Code requirements.

We continue to build a workforce equipped for evolving client needs through a balanced talent strategy that combines fresh hiring, experienced professionals and sustained talent development.

- Our campus hiring continues to focus on digital and AI-native talent, supported by reimagined Initial Learning Program and stronger AI-centric curriculum.

  - We are investing in the trainee pipeline and deployment readiness through experiential project-based learning, while gradually moving towards a more skill-centric employee pyramid.
- We are also investing in large-scale upskilling and reskilling of our existing workforce.
  - TCS continues to operate one of the industry's largest enterprise learning engines. In Q1 FY27, associates logged **14.6 million learning hours** and **gained over 1.3 million competencies**.
- Our lateral hiring is focused on domain-specific and AI-native talent.
  - Over 50% of the lateral hires already possess next-generation skills and we expect this share to increase as we continue to build talent depth.

Looking ahead, we remain focused on enabling our people to be future-ready through investments in AI infrastructure and next-generation skill development programs. We are committed to fostering a workplace environment where every associate feels safe, valued, trusted and empowered to grow.

Thank you and I now hand it back to Krithi.

K Krithivasan: Thank you, Sudeep.

Let me now share details of our key industries' performance this quarter.

- **BFSI** delivered good growth across geographies.
- **Tech, Software and Services** continued its growth momentum. We successfully won several large and mid-sized deals in this segment, including a multi-million-dollar deal with **ServiceNow**.
- In **Consumer Business Group**, the quarter was driven by a combination of inflationary pressures and ongoing geopolitical uncertainties impacting discretionary spend. In this environment, client priorities were focused on managing their increasing costs.

Growth initiatives remain selective, centered on targeted areas that could deliver scalable impact without increasing risk exposure.

- **Life Sciences and Healthcare** saw a decline this quarter. However, core demand for AI transformation, automation and compliance initiatives is intact. Recovery is expected soon.
- **Manufacturing** continued to show softness in certain segments like auto, while decision-making was influenced by tariff pressure, macro uncertainty, EV recalibration, supply chain resilience and cost discipline. However, our outlook remains positive for manufacturing based on multiple net new deal wins signed this quarter. For instance,
  - We announced a landmark **US$800 million global AI-led business transformation** deal with **SKF** for redesigning their enterprise operations around an intelligent digital core.
  - We also further strengthened our collaboration with **ABB** through a new multi-million-dollar future Network Model engagement.
  - We also signed a multi-million-dollar deal with a **Global Fortune 50 European firm.** All of these are completely net new AI-led opportunities.
- In **CMI**, the industry headwinds continue to play out. We delivered modest growth in this sector.
- While **ERU** had a slight decline this quarter, we are positive on the growth prospects of this segment on the back of AI infrastructure build-out, electrification, renewables, energy security and mining critical materials.
- In **Regional Markets**, growth was driven by India, Public services, and our products and platforms.

To summarize, enterprises are investing in transformation that improves resilience, productivity, security and readiness for AI. AI-led transformation, modernization, cybersecurity, sovereign cloud, platform rationalization and vendor consolidation are attracting client investments and TCS is favored as a partner of choice for our clients.

We are encouraged by the quality of wins, strong client mining, steady AI monetization, relevance of our offering and the strength of our long-term competitiveness. These factors give us confidence that TCS is well-positioned to convert demand into stronger growth as clients spend normalizes and AI adoption scales across enterprises.

We remain focused on execution, on deepening partnerships and on building capabilities that position TCS strongly for the AI-led transformation cycle ahead. We are confidently marching towards our aspiration to become the world's leading AI-led technology services company. We will pursue this aspiration with discipline, responsibility and a continued focus on creating 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 Kumar Rakesh from BNP Paribas. Please go ahead.

Kumar Rakesh: Hi, good evening, thank you for taking my question. My first question was around the demand environment, especially from a near-term perspective. So how did you see the quarter, if you could quantify the impact from some of the macro and geopolitical uncertainties you saw in the quarter and did that pick up during the quarter and how do you see that panning out in the September quarter? Are there any more incremental impacts that you see going into the September quarter?

K Krithivasan: Kumar, as we called out sometime earlier also, whatever factors we saw in Q4, we initially said that things were improving, but then around March, we started seeing geopolitical uncertainties increase. That sentiment continued through this quarter and I don’t know when this will change, because overall, many of the ongoing conflicts are continuing. We also saw, in many situations, our clients defer some of the projects during the quarter. These two were the effects we saw.

But if you ask me, overall, we are still optimistic that the demand will resume at some time in Q2, primarily because our customers have a significant amount of pent-up technology backlog to be completed. I expect the demand to improve sometime in Q2. We're generally optimistic on Q2 going in at this time.

Kumar Rakesh: Thanks a lot for that. My second question was about the SG&A investments, and you have called out earlier as well that you are making investments, especially around AI. And that line item is up by about 16% in dollar terms YoY.

If you could give us some more granular color, what investments are we making over there? Is it sales hiring? If so, in which geography, which areas are you focusing, or anything else which can have a better sense of what areas we are incrementally investing in?

Samir Seksaria: Kumar, this quarter we have undertaken a refinement of cost categories and, we have done away with the split-up of COR and SG&A, but as you rightly said, from the IFRS published financials, the SG&A investments have been increasing and like we have stated earlier, our investments are on talent, strengthening the partnerships and targeted investments. This also includes some of the charges on the M&A side.

Kumar Rakesh: Got it. Thanks a lot for that. I'll fall back in the queue.

Moderator: Thank you. Next question is from the line of Yogesh Aggarwal from HSBC Securities. Please go ahead.

Yogesh Aggarwal: Firstly, thanks for sharing the AI revenues and the details around the AI deals. But I think the picture will be a lot more complete if you can also discuss the impact, percentage of revenues or the business or the client has already gone through the productivity pass-through, and how much is left? Is it significant or is it not a large share?

K Krithivasan: Yogesh, your line was not very clear, but I'm assuming your question is around any overall revenue deflation because of the productivity gains coming out of AI. Is it right?

Yogesh Aggarwal: Yes, and what part of the business has already gone through it?

K Krithivasan: It's difficult to quantify what part of the business has already gone through productivity pass through, but what we can see is as and when the projects come up for renewal, we find opportunities along with our clients to unearth productivity benefits and pass them on to our customers.

There are situations where our associates proactively look at opportunities and go to our customers and say where we can reduce overall spend. But we also see in many places, whenever we go to our customers with such opportunities, customers give us additional work and the top line is not significantly impacted.

This is an ongoing process, Yogesh and it will be very difficult to say whether we are done with all productivity gains being passed on. One quantification I can give you is in most places, the productivity gain passed on is around 10% to 15% range.

Moderator: Thank you. Next question is from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Hi Krithi, thanks for the opportunity. Firstly, on the incremental AI revenue, we added $75 million of incremental AI revenue this quarter versus $125 million of incremental revenue added in the March quarter. Is there any peculiar seasonality here, or was this quarter impacted by West Asian conflict or any other matters? The reason I'm asking is we don't have the full time series pattern to sort of understand the trend.

K Krithivasan: Sudheer, please note that, this AI revenue is not like traditional ADM revenue where there is a lot of annuity revenue involved. Many of these projects tend to be one quarter, two quarter projects, where we complete and we have to win new projects again to deliver and accrue the revenue.

There would be some quarters where this will tend to be a little lumpy in terms of the size of the overall revenue that we get. What we look for is, it is continuously increasing and the conversations with our clients, are yielding more opportunities. We are quite happy with the kind of growth we've been seeing on a quarter-on-quarter basis because of the non-recurring nature of this work.

Sudheer Guntupalli: Understood, sir, and the second question is the latest buzz term in the industry is the Forward Deployed Engineers. If we were to loosely equate this, would the role of a product manager in the digital era be a comparable benchmark for the role of the FDE? And a connected question is, if you were to assess your overall workforce, so how many FDEs would you count upon in the overall global workforce that you have right now?

Aarthi Subramanian: Yes, Sudheer, this is Aarthi here. I think firstly the definition of FDE, is evolving as we speak. But within TCS, we have come up with a definition and along with the definition, the building of competencies and deployment of those engineers and as you know, the FDEs work in pods, also called squads. So, the entire operating model around FDE is something we are defining.

If you look back in the last year, since we started delivering in the new operating model with AI, we introduced our **AI Acceleration Playbook** that we came up with last year, which is 'Innovate with AI, Build with AI, Scale with AI'. The playbook uses this concept of rapid build engineers, which is very similar to a forward deployment engineer. The difference being that a forward deployment engineer would have multiple skills but would be very deep on one particular skill, sometimes on technical or a domain, but works with a toolkit that the person takes to go and solve a problem.

Most of these FDE deployments are a different kind of project where you start with a problem that you solve for and then you deploy the squad and the engineers and I would not equate this to the role of a product manager.

These are specialist engineers who are multi-skilled but deep in one particular skill. In TCS, we coined a term many years ago during the digital era, T-factor, and I think the FDE fits quite well into the same T-factor capability model.

At this time, I wouldn't put a number to how many FDE we have because this is a transition period and we are building these skills. But going forward, we would definitely target to have the definition that we come up with, and target to have at least 1% of our employee base, to work in the new operating model.

But this is not a one-time jump, it is a transition. We are already working in the FDE model with our rapid build methodology, but the definition and the operating model, I expect it to evolve.

Sudheer Guntupalli: Okay, ma'am, thanks and Krithi, one last question to your earlier response on the West Asian conflict impact. You said the uncertainty which started in March continued through April, May, and June. If you were to quantify the rate of change, given that you are expecting improvement sometime in the second quarter, are you seeing that it would have already peaked and you are now seeing an improvement of the situation on a month-on-month, week-on-week basis? How would you essentially quantify the rate of change of this dynamic?

K Krithivasan: Sudheer, I won't say we can quantify the rate of change. I can only talk based on the conversations we are having with our customers. For instance, this quarter, we expect the life sciences to do better. In some verticals, we see there is a stronger uptick visible.

That gives us confidence and overall conversations that we are having with our customers in different verticals is giving us confidence, Sudheer. I don't know whether I can put a rate of change or quantify that at this time.

Sudheer Guntupalli: Fair enough, sir. Thanks, and all the best.

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

Nitin Padmanabhan: Yes, hi, good evening. Thank you for the opportunity. A couple of quick ones. Last year we had very solid deal-win growth in retail and consumer, while consumer vertical seems to be soft, so is it that those deals aren't converting to revenue, or you think that pipeline should start converting to revenue and should lead to some growth as we move forward?

K Krithivasan: Nitin, there are multiple factors playing out here. We had a few large projects that ended this quarter. So while the new project's net addition is ramping up, it is still not adequate to completely offset the decline from those large projects.

But I think as the quarters move along, and large projects that we signed up, as they start yielding revenue, we'll start seeing growth.

Nitin Padmanabhan: 2 questions from demand perspective. One is that in the US, corporate revenue growth seems to be quite decent, and I think consensus expectations on growth for this year on growth overall is broad-based across industries and seems pretty strong.

And historically, we have seen a very high correlation, but this time around, it looks like it's not really coming through. Why do you think we are seeing this dynamic? Is it more attuned to the demand that is not happening, or is there a real caution on spend?

But if there is velocity of growth, then why should spending be so curtailed is the first question. The second question is, are you cautious on BFSI? If I understood your commentary, or do you think that BFSI continues to do well?

K Krithivasan: Nitin, in fact, my answer to both the questions is probably similar. If you see the banks are doing very well in US, we also are quite optimistic about the sustained growth in BFSI segment. I did call out retail is one segment where because of the geopolitics, when I say retail or consumer business, with airlines and non-essential retail, all of them are having a greater impact because of the global geopolitics.

Similarly, you have manufacturing. Our manufacturing has a significant auto component, and auto is also having an impact because of multiple reasons. So, we need to look at it from a sector perspective.

As I said, BFSI, we are looking good. Manufacturing, we believe will turn around in Q2, life sciences could turn around in Q2, tech services will continue to grow. We are quite optimistic about these. Consumer business will turn around once we have a better market sentiment on geopolitics.

Nitin Padmanabhan: Sure, got it. That's helpful. Thank you so much and all the best.

Moderator: Thank you. Next question is from the line of Ravi Menon from Axis Capital. Please go ahead.

Ravi Menon: Hi, thanks for the opportunity. Krithi, in this environment where the narrative is that white-collar employment will decline due to AI, and the first casualty will likely be software development, your wage hikes and hiring seem to be sending a signal that you see things differently.

Can you talk a bit about why you've given this wage hike and why such strong hiring in an environment where at least the narrative seems to be that we will need net fewer people to do this sort of work?

K Krithivasan: Ravi, I think our Chairman spoke during the last AGM, that we do not believe that there would be a drastic reduction in white-collar. But people would be performing different roles.

Currently, if they are doing software engineering and coding, there could be more skill sets required in terms of prompt engineering, people will be training models, testing models, and lifecycle management, so many other new opportunities would come up.

We don't agree with the view that overall white-collar employment will go down. And second, we want to have more top talent available in the organization. Whenever we see an opportunity and also whenever there is a demand that could immediately deploy the people in a client engagement, these are a couple of factors that help us or direct us into more hiring.

Again, as I said, we don't fully agree that AI is going to reduce the overall white-collar jobs.

Ravi Menon: That's great. And consumer, you spoke quite a bit about it, but any specific sub-segments within this that you'd like to call out? For example, airlines.

K Krithivasan: Airlines in North America is definitely one of the areas and by and large, the non-essential retail also comes under stress.

Ravi Menon: All right. Thanks a lot, and from the sound of it, it looks like except for the consumer segment, you are optimistic that most others seem to be picking up and will continue to see percentage growth.

K Krithivasan: As we speak, we see a good turnaround in almost every other sector.

Ravi Menon: Alright. Thanks so much and best of luck.

Moderator: Thank you. Next question is from Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Yes, thanks for the opportunity. It is good to see that under AI-led transformation bucket, we have disclosed a mega deal win of $800 million from SKF and that too net-new versus a market perception that the role of the system integrator in terms of AI-led transformation would be much lower.

What has led for a client to award such deals to a system integrator? Do you believe it can spread to other verticals, other large clients, and this could be a start of some modernization brownfield kind of a demand?

Second, with AI-led transformation, I think the tenure of execution could be lower. So in this kind of a scenario, though it's a mega deal, the ACV could be much bigger versus what it used to be in the earlier avatar.

Aarthi Subramanian: Let me talk about the mega deal that you called out, SKF. Just wanted to highlight that it's a net-new deal and, it is over $800 million in revenues. What is the driver? I think it is TCS's ability to partner with the customer to really transform their business and technology landscape and help them in their ambition to wanting to be an AI-first company.

I think that is the underlying partnership intent, if I may call it that. And when you look at this deal, it's a very holistic deal cutting across multiple aspects. TCS is going to help SKF completely optimize their run across infrastructure, applications with AI-led efficiencies.

The second thing, many enterprises have legacy tech stack that they need to modernize. Here, S/4HANA transformation is a big part of this deal commitment. What is interesting is that S/4HANA is not an upgrade, we are going to completely do a process mining of their existing processes, use AI to redesign the new process, and then execute the implementation with AI.

It's a very nuanced AI implementation of S/4HANA, which is now the latest trend. In addition, we are also partnering with the customer on industry value chain transformation. Net-net across IT, business transformation with AI is what we have partnered with the customer for.

All the work that we do will span across SKF operations globally, and we are very excited about this very unique opportunity.

Sandeep Shah: My question is, are such prospects coming into pipeline across many sectors, or these kinds of deals sporadic? And second, with AI-led transformation, is it fair to assume the conversion of such kind of a mega deal to revenue could be faster because the tenure of the deal could be lower and ACV could be higher?

Aarthi Subramanian: If you look at it over the last quarter, we have announced three mega deals, this quarter we have one mega deal and in the last 5 quarters, we have announced six mega deals.

These mega deals cut across industries. But in terms of the scope, I think they have something in common. It has a component of optimizing the run with AI and then partnering with the customer on the business transformation.

I think where the acceleration comes is in the transformation, the discretionary projects that are part of the bundle. That's where the AI acceleration comes in execution and one thing we are seeing is that compared to earlier how we would do such deals, how we bring AI much earlier into the execution, whether it's in Ops or in transformation, AI is part of the day one proposition and execution, that brings a certain acceleration to the transformation and also to the execution duration.

Sandeep Shah: Many clients are spending higher than what they budgeted on AI tokens, is there a discussion happening where client will have hybrid model of LLMs, where, are they open to even use open-source model from a partner like DeepSeek based out of China? And if that happens, do you believe the system integrator's role will further increase because of the complex architecture of the same?

K Krithivasan: This we've been saying for quite some time, Sandeep. We believe, most enterprises will have multiple models, one LLM plus many SLMs or multiple LLMs within the same family, they probably will use an older model for certain queries and a newer model for certain workloads, because the model FinOps will become an important topic for what they would use on-prem model, for what they would use a cloud token-based model will also change.

This is an area where system integrators have a greater role to play and ensure that the client's money is well spent and the value is delivered to them. We see this increasing as we go along.

Aarthi Subramanian: Yes, Sandeep, if I may just add, I think in the AI world today, I think making technology decisions across the Infrastructure to Intelligence stack is becoming much more challenging, because the technology is frequently changing so fast and also there are layers to be made and decisions to be made across the stack on top of an existing technology investment that the company already has.

I think the big role that we are playing is helping customers make this technology choices. Secondly, how do you integrate these technologies into an existing diverse complex landscape. I think that is where we play a very big role.

Our being in the client environment for decades, for years, knowing the context, and then making investment in these partnerships to know these products and technologies, the role we play is taking the product capability and creating enterprise value out of it and the need for this is bigger now than ever before.

Sandeep Shah: Okay, thanks and all the best.

Moderator: Thank you. Next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: My first question is given the comment that you made around net-new AI deals, significant ones in the current quarter, is there a change of mix in your current order book between renewals and the net-new deals?

K Krithivasan: No, it's a very marginal shift towards the more AI transformative deals, but I won't say it's a significant shift.

Gaurav Rateria: Got it. My second question is around your AI revenues. Given that it now includes multiple baskets of sub-segments, whether it's physical AI, agentic AI, could you give any example where the billing engagement or the engagement model with the client is substantially different from historical time and material or fixed price, move to some outcome-based in any particular bucket? Which bucket would that be? Any such example will be very helpful.

Aarthi Subramanian: I think the client engagement models are across multiple archetypes. I would say output commitment-based models, outcome-based models, where we are committing through the AI program to deliver a business outcome, in a fixed duration. So that's starting to happen. Second one I would say is definitely fixed price, fixed capacity, where you start with a program, then once the customer sees value, then we actually set up multiple pods like I spoke earlier. We call it our AI lab offering, where that is part of the build and scale. So, you build one, then create capacity in a fixed price model.

In some cases, you do continue to see T&M requirements coming in, but T&M still means that you take accountability for delivering the outcomes. But all three models we are seeing, and especially in agentic GBS, we are seeing a lot more shift, especially this quarter, to more outcome-based commitment.

It has always been transaction-based, and very less T&M. Transaction and outcome-based commitments are increasing in autonomous GBS deals, and we saw quite a few of them this quarter in F&A, HR, and customer experience.

Gaurav Rateria: This is so useful. Thank you. Last question is for Samir. You categorically talked about prioritizing investments in the current context of how technology is shifting, but you also did mention about maintaining our aspirational band on margins on a medium term.

How medium is the medium term from your perspective, given where we are in the lifecycle of the technology change right now? Thank you.

Samir Seksaria: Our approach has been to balance growth investments with operating discipline, and that's what we have been doing consistently. We talked about it at length during our analyst day also. We have been reinvesting some part of the gains into things which will help us achieve our aspiration or long-term commitments.

At times, we have seen a lot of apprehension from investors given our industry-leading profitability, but our aspiration would be make the right investments and to progressively inch up closer, at least to the FY26 levels.

Gaurav Rateria: Thanks, and all the best.

Moderator: Thank you. We'll take our next question from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: Hi, thanks for the opportunity. The first question is in terms of segmental margins. Just wanted to get a sense in terms of why there has been closer to 250 bps to 300 bps decline in margins across manufacturing, communications, life sciences, and even in others segment.

Samir Seksaria: Overall, we have seen a 170 bps impact due to salary increments and then incrementally there would be some impact coming in at a segment level on specific vertical basis investments they might be prioritizing, but the key impact in all segmental margins is the wage impact which reflects across most of the segments which you mentioned.

Ashwin Mehta: And just a clarification to your answer, on the last question. Do we see the trajectory of margins to go back to our FY'26 margins over the next few quarters? Or from a full year perspective, we see it to be very close to the previous year's margins?

Samir Seksaria: Ashwin, usually, we take a big headwind upfront in Q1, and we inch up through the quarter. We want to exit at 25% plus and strive to achieve it sooner rather than later.

Ashwin Mehta: Sure and the last question is in terms of fresher addition; how many freshers would we have added this quarter and what is the plan for the year?

Sudeep Kunnumal: Last quarter, we onboarded 14,000 campus graduates across and as we speak, we are visiting the top universities across the country and hiring for top talent, specifically looking for AI-native skills.

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

Moderator: Next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Hi, thank you for the opportunity. At the start of the call, there was a mention about productivity, which is 10% to 15%. Can you just help us understand, is this on an ACV basis or a TCV basis? And how should we reconcile this with some of the data points that have been talked in other forums that the total $1 trillion spend is going to compress by almost $300 billion over the next few years? Can you just reconcile that?

K Krithivasan: What I said is, there is an overall productivity we are able to achieve, about 10% to 15%, when we leverage AI for client engagements. You should look at that productivity gain coming through the tenure of the project. And we also mentioned that this usually is compensated by additional opportunities that we generate from the customers.

The other question on overall contraction, it will be too difficult for me to answer in terms of $1 trillion. At this time, we don't see such a massive contraction or deflation happening in the world. In fact, you did see that our overall headcount has increased this quarter. So, we are not seeing that kind of contraction happening in our book of work with us.

Abhishek Shindadkar: Just to follow up. Typically, the understanding was the productivity could be 3% to 5% annually. So, if it's a 5-year deal, is it fair to assume that this number is spread over a 5-year period every year or how does that play out?

K Krithivasan: It depends on the kind of project. Because in every project, there are some places in the life cycle where the productivity gain will be better and some where it will not be very easy to achieve. So that depends on the type of project.

For instance, a new software development, application development would behave in a particular way. Monitoring would behave in a different way. Production support will behave in a different way. It will be difficult to say, what happens in the first year or second year.

By and large, as I said, it's a rule of thumb, saying we can expect a 10% to 15% productivity on average. But we are able to offer a front loaded commitment to our customers which we are able to balance it out, to smoothen it out over the term of our project.

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

K Krithivasan: Thank you, operator.

- In Q1, our Revenue grew by **0.4%** QoQ in constant currency, with an operating margin of **24%** and a net margin of **19.2%**.
- Annualized AI services revenue crossed **US$2.6 billion**.
- We had a very strong TCV of **US$9.5** billion in Q1. We remain confident that TCS is well positioned to convert demand into stronger growth as client spending normalizes and AI adoption scales across the enterprise.

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.