

September 20, 2021

Tata Consultancy Services Limited: Change in limits, Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term, fund-based Limits	20.0	20.0	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Long-term/Short-term, Non-fund-based Limits	6,464.0	6,174.9	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Long-term/short-term Fund-based/Non-fund based	443.0	593.3	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Long-term/short-term unallocated	73.0	211.8	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Total	7,000.0	7,000.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings favourably factor in Tata Consultancy Services Limited's (TCS) leading position among Indian players in the global information technology (IT) and IT enabled services (ITeS) outsourcing segment, its diversified and growing client base, wide range of services, scale of operations and strong financial profile characterised by healthy revenue growth and recurring cash accruals and strong liquidity in the form of free cash reserves. The company's YoY growth in constant currency terms had been -0.8% in FY2021 due to the adverse impact of the Covid-19 pandemic in H1 FY2021 across majority of its verticals. However, the growth recovered gradually with YoY growth of 16.4% in Q1 FY2022 supported by last year's low base and driven by accelerated spends on migration to cloud, digital initiatives to bring business models online and faster conversion of earlier signed deals. The ratings continue to draw comfort from the company's presence in diversified verticals and solid execution track record, which has helped it build scale.

ICRA notes that the growth of traditional services and Indian IT services sector companies had been constrained by disruption due to cloud adoption, a sharp shift towards digital services and intense competition from local as well as international players. However, with its early organic investments in digital services, TCS has been able to capture higher spends on digital technologies. Further, the company's integrated service offerings, backed by its own intellectual property rights (IPRs), strong domain expertise and contextual knowledge, have helped it differentiate itself in the market place, thus enabling it to withstand competitive pressure and win large deals. The above factors combined with the continued cost benefit through the outsourcing model have resulted in market share gains for the company. Moreover, after migration of significant infrastructure and enterprise workload to cloud, overall industry prospects will remain bright in the medium term—this is expected to be driven by the customer's need to derive business value from cloud native capabilities leading to higher technological spends. With its capabilities, TCS is well positioned to exploit such growth opportunities and drive growth.

The Indian IT services industry continues to face geopolitical uncertainties such as legislations on restricting outsourcing or immigration in its key markets, which may have an adverse impact on the current business model of the industry. The demand for IT services remains exposed to macro-economic uncertainties such as a sustained growth slowdown in key markets in the US and Europe, which may pose a challenge to the Indian IT services industry. The company has a high concentration of revenues, primarily in the BFSI (almost 38-39%) segment, although the same is mitigated by its established relationship with clients as well as its deep domain knowledge.

The margins for the Indian IT services companies will continue to reflect the challenging operating environment characterised by pressure on commoditised IT services, wage inflation, and higher onsite costs necessitated by visa curbs leading to increased local hiring as well as lower discretionary spend by corporate firms. These risks are, however, mitigated by TCS' large scale of

operations, diversified customer base across geographies and its ability to generate operational efficiencies to counter such pressures. Further, the company's liquidity profile remains robust, given the cash and investment balance of Rs. 54,360.0 crore as on June 30, 2021, and the low capital expenditure requirements, which provide a buffer against any short-term fluctuations. However, its liquid reserves will remain sensitive to the level of dividend pay-outs and future buybacks, if any.

Key rating drivers and their description

Credit strengths

Largest Indian company in global IT services outsourcing segment; remains competitive given its access to large technical talent pool and cost advantages in India – With a scale of Rs. 1,64,177 crore in FY2021 (\$22.2 billion), TCS is the largest Indian company in the global IT services outsourcing industry lending scale efficiencies. Indian IT services companies, including TCS, continue to benefit from India's massive educated workforce that provides a large technical talent pool resulting in global competitiveness.

Full-service capability with increasing share of digital business; proven ability to win and handle large-scale projects globally – The company's ability to offer full-service capability has helped it win deals across a wide spectrum of verticals. The company has strong domain expertise and contextual knowledge and has demonstrated its ability to structure and execute large-scale projects globally. This has differentiated it in the market place, enabling it to continually gain market share over its competitors. TCS' significant organic investments in manpower training and developing capabilities have also given it a competitive edge and helped it capture many transformational digital deals.

Diversified client base with high repeat business – The company has a large, diversified and growing client base with meaningful incremental addition of clients in the above \$20-million, \$50-million and \$100-million buckets across years till Q1 FY2022. Its superior execution ability has resulted in high repeat business, thus providing stability to the revenue stream.

Robust financial profile, given healthy profitability, cash accruals and healthy liquidity position – The company's financial profile remains robust as reflected in its high operating profitability, strong capital structure, recurring operating cash flows and robust liquidity position in the form of a strong cash and investment balance of Rs. 54,360 crore as on June 30, 2021.

Credit challenges

Slowing revenue growth from traditional outsourcing business; continued ability to win fresh digital business at scale critical for future growth – The IT services industry had been facing headwinds in the form of slowing demand for traditional services such as application development and maintenance as well as infrastructure management services (IMS), which have been negatively impacted by Social, Mobility, Analytics and Cloud computing (SMAC) and artificial intelligence (AI), commonly referred to as digital technologies. In the past few years, companies had been spending more on initiatives built around digital technologies to drive business outcomes, which has seen significant acceleration post the pandemic impact. Against this backdrop, TCS' continued ability to win a higher share of digital business at scale would be critical for driving future growth. Nevertheless, ICRA takes significant comfort from TCS' capabilities to exploit growth opportunities in digital tech.

Legislation to restrict outsourcing or restriction on immigration could be detrimental for current business model, leading to revenue and margin pressures – In the past four years, there has been uncertainty regarding the US Government's visa policies towards its non-immigrant and temporary visa programmes, such as the H-1B and L1 visas. Any adverse development may prove to be detrimental to TCS' current business model and will lead to pressure on its revenues and margins. ICRA, nevertheless, notes the company's increased local hiring across countries, particularly in the US, to mitigate the above risks.

High concentration in BFSI vertical mitigated by track record of consistent performance – The company has a high concentration of revenues, primarily in the BFSI (almost 38-39%) segment, although the same is mitigated by its established relationship with clients as well as deep domain knowledge. Demand for the sector in the past has been adversely impacted

by the macro-economic conditions affecting the industry, including sustained low interest rates, continued focus on cost optimisation and management of discretionary spends as well as in-sourcing by a few clients for greater operational control. The business is supported by digitisation efforts, cost optimisation, regulatory, compliance and security-driven initiatives. The BFSI sector was impacted by pandemic related softness in H1 FY2021, it has recovered well during Q3 FY2021 and Q4 FY2021 (YoY CC growth of 13.3% in Q4 FY2021) as there was significant support to the sector from governments of key markets. The BFSI segment grew by 19.3% in Q1 FY2022. Further, while there is growing acceptance of public cloud in the BFSI space, it still lags in large scale adoption, which could be a key long-term trigger for spends in the sector, supporting growth.

Liquidity position: Superior

TCS has consistently generated strong cash flow from operations, supported by its healthy operating profitability and low working capital intensity. The company had a robust liquidity position with cash and equivalents of Rs. 54,360.0 crore as on June 30, 2021. Despite the high dividend pay-outs and buybacks, the company's liquidity is expected to remain healthy, given the high recurring operating cash flows. However, ICRA has not factored in any large inorganic expansion plan by the company.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure could arise in case of a material deterioration in the company's credit profile because of a sharp decline in its operating performance and/or a large debt-funded acquisition and/or higher than expected shareholder pay-outs.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology - Information Technology (Services)
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2021, TCS had 50 subsidiaries that are listed in Annexure-2.

About the company

Established in 1968 as a division of Tata Sons, Tata Consultancy Services Limited is currently the largest Indian IT services company. The company pioneered the concept of offshore IT services in 1974 and emerged as an integrated full-service provider with a global footprint. It was listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) in August 2004. TCS is a part of the Tata Group, with Tata Sons (rated [ICRA]AAA(Stable)/[ICRA]A1+) holding a 72.02% equity share (as on December 31, 2020) in the company.

TCS offers a rich portfolio of services, which includes consulting and service integration, digital transformation services and cognitive business operations. Based on industry classification, the company has five key verticals: 1) banking, financial services and insurance (BFSI), 2) retail and consumer business, 3) communication, media and technology, 4) manufacturing, and 5) others. The last category includes life sciences and healthcare, technology and services, energy, resources and utilities, and others. TCS has a widespread geographical presence across North America, Latin America, continental Europe, the UK, India, Asia Pacific, West Asia and Africa.

In FY2021, TCS reported a net profit of Rs. 32,562 crore on an operating income (OI) of Rs. 1,64,177 crores compared to a net profit of Rs. 32,447 crore on an OI of Rs. 1,56,949 crore in FY2020. The company's net profit includes a onetime legal provisioning claim of Rs. 958 crores, net of tax in FY2021.

Key financial indicators (audited)

TCS Consolidated	FY2020*	FY2021*
Operating Income (Rs. crore)	156949.0	164177.0
PAT (Rs. crore)	32447.0	32562.0
OPBDIT/OI (%)	26.8%	28.4%
PAT/OI (%)	20.7%	19.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	0.2	0.2
Interest Coverage (times)	45.6	73.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: TCS, ICRA research, *Total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 22, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep. 20, 2021	Mar 30, 2021	Mar 24, 2020	Mar 19, 2019
1	Fund-based facilities	Long-term and short term	20.0	-	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+
2	Non-fund-based facilities	Long-term and short term	6,174.9	-	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+
3	Fund/non-fund-based facilities	Long-term and short term	593.3	-	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+
4	Unallocated	Long-term and short term	211.8	-	[ICRA]AAA(Stable)/[ICRA]A1+	[ICRA]AAA(Stable)/[ICRA]A1+	-	-

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term, fund-based Limits	Simple
Long-term/Short-term, Non-fund-based Limits	Simple

Long-term/short-term Fund-based/Non-fund based	Simple
Long-term/short-term unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
JP Morgan Chase Bank	Fund-based Limits	NA	NA	NA	20.00	[ICRA]AAA(Stable)/[ICRA]A1+
Axis Bank	Non-fund-based limits	NA	NA	NA	200.00	[ICRA]AAA(Stable)/[ICRA]A1+
HSBC	Non-fund-based limits	NA	NA	NA	99.95	[ICRA]AAA(Stable)/[ICRA]A1+
ICICI Bank	Non-fund-based limits	NA	NA	NA	250.00	[ICRA]AAA(Stable)/[ICRA]A1+
Canara Bank	Non-fund-based limits	NA	NA	NA	57.00	[ICRA]AAA(Stable)/[ICRA]A1+
Kotak Mahindra Bank	Non-fund-based limits	NA	NA	NA	350.00	[ICRA]AAA(Stable)/[ICRA]A1+
Citibank	Non-fund-based limits	NA	NA	NA	3,352.00	[ICRA]AAA(Stable)/[ICRA]A1+
Bank of America	Non-fund-based limits	NA	NA	NA	140.98	[ICRA]AAA(Stable)/[ICRA]A1+
Deutsche Bank	Non-fund-based limits	NA	NA	NA	450.00	[ICRA]AAA(Stable)/[ICRA]A1+
State Bank of India	Non-fund-based limits	NA	NA	NA	1,180.00	[ICRA]AAA(Stable)/[ICRA]A1+
Standard chartered Bank	Non-fund-based limits	NA	NA	NA	95.00	[ICRA]AAA(Stable)/[ICRA]A1+
Bank of America	Fund based/ Non-fund-based limits	NA	NA	NA	45.00	[ICRA]AAA(Stable)/[ICRA]A1+
Deutsche Bank	Fund based/ Non-fund-based limits	NA	NA	NA	300.00	[ICRA]AAA(Stable)/[ICRA]A1+
Standard Chartered	Fund based/ Non-fund-based limits	NA	NA	NA	5.00	[ICRA]AAA(Stable)/[ICRA]A1+
Citibank	Fund based/ Non-fund-based limits	NA	NA	NA	148.00	[ICRA]AAA(Stable)/[ICRA]A1+
Axis Bank	Fund based/ Non-fund-based limits	NA	NA	NA	75.25	[ICRA]AAA(Stable)/[ICRA]A1+
HSBC	Fund based/ Non-fund-based limits	NA	NA	NA	0.05	[ICRA]AAA(Stable)/[ICRA]A1+
State Bank of India	Fund based/ Non-fund-based limits	NA	NA	NA	20.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Unallocated	NA	NA	NA	211.77	[ICRA]AAA(Stable)/[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	TCS Ownership	Consolidation Approach
APTOnline Limited	89.0	Full consolidation
C-Edge Technologies Limited	51.0	Full consolidation
Diligenta Limited	100.0	Full consolidation
MP Online Limited	89.0	Full consolidation
Tata Consultancy Services Canada Inc.	100.0	Full consolidation
Tata America International Corporation	100.0	Full consolidation
Tata Consultancy Services Asia Pacific Pte Ltd.	100.0	Full consolidation
Tata Consultancy Services Belgium	100.0	Full consolidation
Tata Consultancy Services Deutschland GmbH	100.0	Full consolidation
Tata Consultancy Services Netherlands BV	100.0	Full consolidation
Tata Consultancy Services Sverige AB	100.0	Full consolidation
TCS FNS Pty Limited	100.0	Full consolidation
TCS Iberoamerica SA	100.0	Full consolidation
Tata Consultancy Services (Africa) (PTY) Ltd.	100.0	Full consolidation
MahaOnline Limited	74.0	Full consolidation
Tata Consultancy Services Qatar S.S.C.	100.0	Full consolidation
TCS e-Serve International Limited	100.0	Full consolidation
TCS Foundation	100.0	Full consolidation
W12 Studios Limited	100.0	Full consolidation
Tata Consultancy Services Ireland Limited (w.e.f. December 2, 2020)	100.0	Full consolidation
TCS Financial Solutions Beijing Co., Ltd.	100.0	Full consolidation
Tata Consultancy Services (China) Co., Ltd.	93.2	Full consolidation
TCS Solution Center S.A.	100.0	Full consolidation
Tata Consultancy Services Argentina S.A.	100.0	Full consolidation
Tata Consultancy Services Do Brasil Ltda	100.0	Full consolidation
Tata Consultancy Services De Mexico S.A., De C.V.	100.0	Full consolidation
Tata Consultancy Services De Espana S.A.	100.0	Full consolidation
TCS Italia s.r.l.	100.0	Full consolidation
Tata Consultancy Services Japan, Ltd.	66.0	Full consolidation
Tata Consultancy Services Malaysia Sdn Bhd	100.0	Full consolidation
Tata Consultancy Services Luxembourg S.A.	100.0	Full consolidation
Tata Consultancy Services (Portugal) Unipessoal, Limitada	100.0	Full consolidation
TCS Inversiones Chile Limitada	100.0	Full consolidation
Tata Consultancy Services Chile S.A.	100.0	Full consolidation
TATASOLUTION CENTER S.A.	100.0	Full consolidation
TCS Financial Solutions Australia Pty Limited	100.0	Full consolidation
PT Tata Consultancy Services Indonesia	100.0	Full consolidation
Tata Consultancy Services Switzerland Ltd.	100.0	Full consolidation
Tata Consultancy Services (South Africa) (PTY) Ltd.	100.0	Full consolidation
Tata Consultancy Services (Thailand) Limited	100.0	Full consolidation
Tata Consultancy Services (Philippines) Inc.	100.0	Full consolidation
TCS e-Serve America, Inc.	100.0	Full consolidation
TCS Uruguay S.A.	100.0	Full consolidation
MGDC S.C.	100.0	Full consolidation
Tata Consultancy Services Osterreich GmbH	100.0	Full consolidation
Tata Consultancy Services Danmark ApS	100.0	Full consolidation

Company Name	TCS Ownership	Consolidation Approach
Tata Consultancy Services France (Formerly Tata Consultancy Services France SA)	100.0	Full consolidation
Tata Consultancy Services Saudi Arabia	76.0	Full consolidation
TCS Business Services GmbH	100.0	Full consolidation
Postbank System AG	100.0	

Source: TCS annual report FY2021

Note: ICRA has taken a consolidated view of the parent (TCS), its subsidiaries and associates while assigning the ratings.

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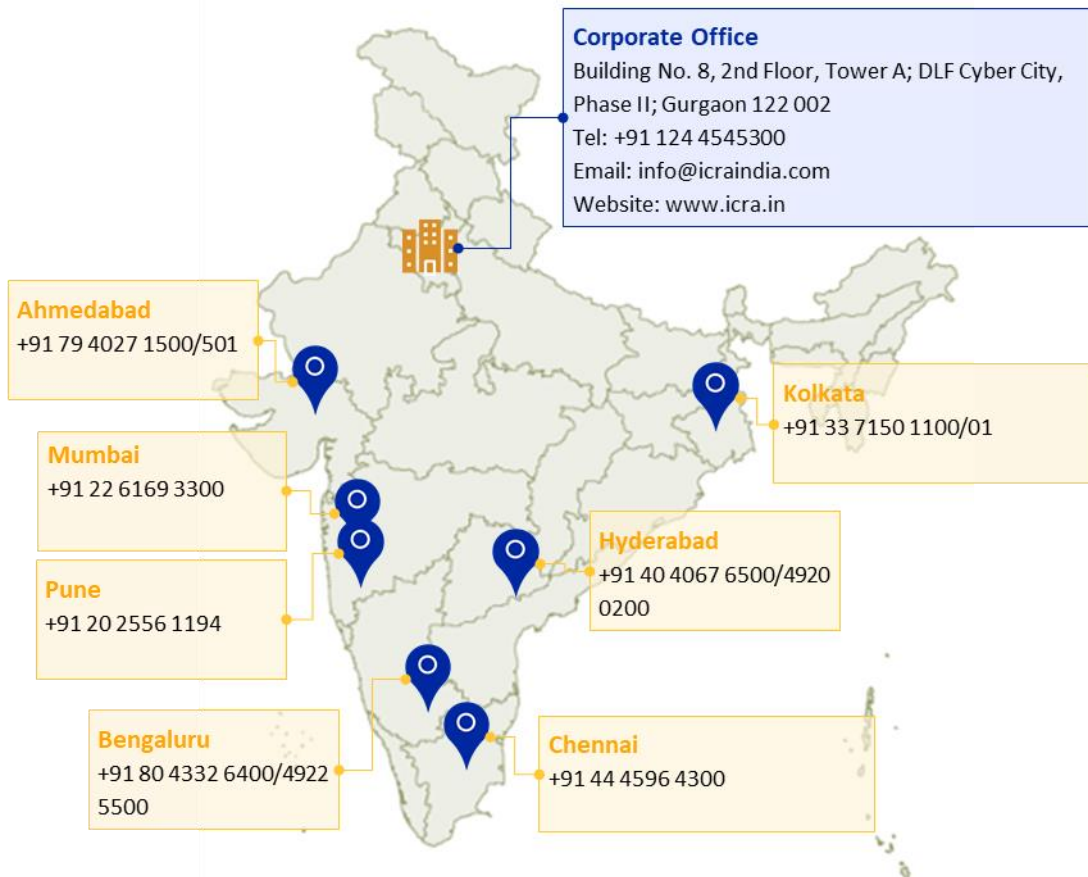
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