

September 10, 2024

Tata Consultancy Services Limited: 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	20.00	20.00	[ICRA]AAA (Stable)/ [ICRA]A1+; reaffirmed
Long-term/ Short-term, Non-fund Based Limits	8,295.56	7,719.80	[ICRA]AAA (Stable)/ [ICRA]A1+; reaffirmed
Long-term/ Short-term, Fund-based/ Non-fund Based	521.44	1,027.20	[ICRA]AAA (Stable)/ [ICRA]A1+; reaffirmed
Long-term/ Short-term, Unallocated	163.00	233.00	[ICRA]AAA (Stable)/ [ICRA]A1+; reaffirmed
Total	9,000.00	9,000.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for Tata Consultancy Services Limited (TCS) factors in its leadership 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, presence in diversified verticals and an established execution track record.

Persistent macro-economic headwinds in the key markets of Europe and North America have led to lower discretionary technology-related spending by clients, impacting the revenue growth of Indian IT services companies in the recent past. TCS also reported a modest 3.4% and 4.4% YoY revenue growth in constant currency (CC) terms in FY2024 and Q1 FY2025, respectively (13.7% in FY2023). Despite the same, TCS maintained a healthy operating profit margin (OPM), which stood at ~26.7% in FY2024, supported by improved utilisation levels, cost optimisations initiatives undertaken and easing out of wage cost inflation amid declining attrition levels. In line with the industry trend, TCS' attrition level in the last 12 months tapered to 12.1% in Q1 FY2025 from 21.5% in Q2 FY2023. While revenue growth is likely to remain modest in the current fiscal, TCS' robust order pipeline, and strong long-term growth levers (as technology is a key constituent of capital allocation for corporates), provide healthy revenue visibility over the medium term.

The ratings also continue to favourably factor TCS' robust financial profile, characterised by healthy cash accrual generation, negative net debt position and robust liquidity profile (cash balances and other investments worth Rs. 46,647 crore as on June 30, 2024), despite continued high shareholder return payouts in the recent years.

The company faces competition from other prominent players in the global IT services industry, which limits its pricing flexibility to an extent. Moreover, the industry continues to face challenges including exposure to macro-economic environment and policies in key operating markets of the US and Europe, employee attrition, etc.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite modest revenue growth in the near term, TCS' credit profile will continue to remain strong, supported by its leadership position in the industry, strong cash flow generation from operations and robust liquidity position.

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 revenue of Rs. 2,40,893 crore in FY2024, TCS has remained the leading Indian company in the global IT services outsourcing industry, lending scale efficiency. The country's 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. TCS provides a wide array of services across the industry value chain and caters to clients across sectors, such as manufacturing, banking and financial services, media, telecommunication, healthcare, technology, and public services, among others.

Full-service capability with rising 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 marketplace, enabling it to continually gain market share over its competitors. TCS' significant organic investments in manpower training and developing capabilities, along with being at the forefront of adopting new-age technologies such as GenAI have given it a competitive edge, and helped it capture many transformational digital deals across the globe. Despite uncertain global macro-economic conditions, the company's order book and pipeline remain strong with deal wins of total contract value (TCV) worth \$42.7 billion in FY2024 and \$8.3 billion in Q1 FY2025, which provide revenue visibility for the medium-to-long term.

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 in FY2024 and Q1 FY2025. 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 robust liquidity position – The company's financial profile remains robust, as reflected in its high operating profitability, strong capital structure with continued external debt free status and robust liquidity position in the form of cash/bank balances and other investments worth Rs. 46,647 crore as on June 30, 2024. While ICRA expects TCS to report a modest revenue growth in FY2025, its financial profile is expected to remain robust, supported by healthy cash accruals and continued net debt negative position, despite the expected high shareholder return payout.

Credit challenges

Industry specific challenges like exposure to macro-economic environment and policies in key operating markets, employee attrition, etc. – TCS is exposed to macro-economic uncertainties and any adverse regulatory/ legislative change in its key operating markets of North America and Europe (including the UK), which drove ~83% of its revenue in FY2024, in line with the global industry trends. Over the past few quarters, TCS' growth momentum moderated in these key geographies due to persistent macro-economic headwinds, though the performance in the UK market was more resilient during this period. However, the moderation witnessed in North America and Europe was partially offset by healthy growth recorded in India, UK, Asia Pacific and Middle East markets. The company is also impacted by other industry-specific factors such as wage cost inflation and challenges of retaining and reskilling of its talent pool. After having peaked in FY2023, the attrition level has tapered down significantly over the past few quarters. This coupled with strong business position, increased employee utilisation and cost rationalisations initiatives have enabled the company to sustain its healthy OPM, despite modest revenue growth.

Exposure to intense competition in global IT industry – The global IT services industry is dominated by several large players, leading to intense margin pressure. Despite being the largest Indian IT services company, TCS faces competition from domestic players such as Infosys, HCL Technologies and Wipro, as well as from international players like IBM, Accenture, Cognizant, and Capgemini, among others. There are various smaller, niche technology players, which lead to intense competition in the industry while bidding for new contracts.

Environmental and Social Risks

Environmental considerations: Given the service oriented business, TCS' direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material.

Social considerations: Like other Indian IT service companies, TCS faces the risk of data breaches and cyber-attacks that could affect the large volumes of customer data that it manages. Any material lapse on this front could result in substantial liabilities, fines, or penalties and reputational impact. Also, TCS remains exposed to the risk of changes in immigration laws in the key developed markets where it provides its services. While such changes would be influenced by social and political considerations of those nations, they could increase competition among IT players for skilled workforce, leading to higher attrition rates and may have an adverse impact on profitability. Managing various facets of human capital, including skills, compensation, and training, is a key differentiating factor among IT companies. TCS’ record in these parameters has been better than other players in the IT service industry, which mitigates the human capital induced social risk.

Liquidity position: Superior

TCS’ liquidity is **superior**, supported by consistent generation of strong cash flow from operations, healthy operating profitability, and low working capital intensity of the business. Additionally, the liquidity profile is strengthened by sizeable free cash/bank balances and other investments worth Rs. 46,647 crore as on June 30, 2024. Despite the high likely dividend payouts/share buybacks, the company’s liquidity is expected to remain robust, given the healthy 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 on the ratings could arise in case of a material deterioration in the company’s credit profile because of a sustained and a sharp decline in its operating performance and/or disproportionate dividend payouts/share buybacks and/or a large debt-funded acquisition.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology IT – Software & Services
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. As on March 31, 2024, TCS had 51 subsidiaries that are listed in Annexure-II.

About the company

Established in 1968 as a division of Tata Sons, TCS is 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. It is a part of the Tata Group, with Tata Sons (rated [ICRA]AAA(Stable)/[ICRA]A1+) holding a 71.7% equity share (as on June 30, 2024) in the company. TCS is a CMMI-level 5 company.

The services offered by the company include IT solutions and services, infrastructure services, global consulting, engineering and industrial services, and IT-enabled services (Business Process Management [BPM] solutions). Its portfolio of software products includes financial solutions (BaNCS), health and life science industry solutions, and asset leverage solutions. The company is focused on the BFSI segment, with retail, communication and media, manufacturing and technology services being its other major segments. TCS has a widespread geographical presence in the US, Continental Europe, the UK, India, Asia Pacific and West Asia.

Key financial indicators (audited)

TCS – Consolidated	FY2023	FY2024	Q1 FY2025
Operating income	225,458	240,893	62,613
PAT	42,303	46,099	12,105
OPBDIT/OI	26.3%	26.7%	26.6%
PAT/OI	18.8%	19.1%	19.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.6	-
Total debt/OPBDIT (times)	0.1	0.1	-
Interest coverage (times)	76.1	82.6	96.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Chronology of rating history for the past 3 years			
			Current rating (FY2025)			
			Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Sep 10, 2024	July 24, 2023	May 30, 2022	Sep 20, 2021
1 Fund-based Limits	Long term and short term	20.00	[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	7,719.80	[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	1,027.20	[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	233.00	[ICRA]AAA(Stable)/ [ICRA]A1+	[ICRA]AAA(Stable)/ [ICRA]A1+	[ICRA]AAA(Stable)/ [ICRA]A1+	[ICRA]AAA(Stable)/ [ICRA]A1+

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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	20.00	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Non-Fund-Based Facilities	NA	NA	NA	7,719.80	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Fund/Non Fund-based Limits	NA	NA	NA	1,027.20	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Unallocated	NA	NA	NA	233.00	[ICRA]AAA (Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	TCS Ownership (in %)	Consolidation Approach
APT Online Limited	89.0	Full consolidation
C-Edge Technologies Limited	51.0	Full consolidation
MP Online Limited	89.0	Full consolidation
TCS e-Serve International Limited	100.0	Full consolidation
MahaOnline Limited	74.0	Full consolidation
TCS Foundation	100.0	Full consolidation
Diligenta (Europe) B.V.	100.0	Full consolidation
Diligenta Limited	100.0	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 (China) Co., Ltd.	100.0	Full consolidation
Tata Consultancy Services Japan, Ltd.	66.0	Full consolidation
Tata Consultancy Services Malaysia Sdn Bhd	100.0	Full consolidation
PT Tata Consultancy Services Indonesia	100.0	Full consolidation
Tata Consultancy Services (Philippines) Inc.	100.0	Full consolidation
Tata Consultancy Services (Thailand) Limited	100.0	Full consolidation
Tata Consultancy Services Belgium	100.0	Full consolidation
Tata Consultancy Services Deutschland GmbH	100.0	Full consolidation
Tata Consultancy Services Sverige AB	100.0	Full consolidation
Tata Consultancy Services Netherlands BV	100.0	Full consolidation
TCS Italia s.r.l.	100.0	Full consolidation
Tata Consultancy Services Luxembourg S.A.	100.0	Full consolidation
Tata Consultancy Services Switzerland Ltd.	100.0	Full consolidation
Tata Consultancy Services Osterreich GmbH	100.0	Full consolidation
Tata Consultancy Services De Espana S.A.	100.0	Full consolidation
Tata Consultancy Services (Portugal) Unipessoal, Limitada	100.0	Full consolidation
Tata Consultancy Services France (Formerly Tata Consultancy Services France SA)	100.0	Full consolidation
Tata Consultancy Services Saudi Arabia	100.0	Full consolidation

Company Name	TCS Ownership (in %)	Consolidation Approach
Tata Consultancy Services (Africa) (PTY) Ltd.	100.0	Full consolidation
Tata Consultancy Services (South Africa) (PTY) Ltd.	100.0	Full consolidation
TCS FNS Pty Limited	100.0	Full consolidation
TCS Financial Solutions Beijing Co., Ltd.	100.0	Full consolidation
TCS Financial Solutions Australia Pty Limited	100.0	Full consolidation
TCS Iberoamerica SA	100.0	Full consolidation
TCS Solution Centre 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 Chile S.A.	100.0	Full consolidation
TCS Inversiones Chile Limitada	100.0	Full consolidation
TATASOLUTION CENTER S.A.	100.0	Full consolidation
TCS Uruguay S.A.	100.0	Full consolidation
MGDC S.C.	100.0	Full consolidation
Tata Consultancy Services Qatar L.L.C	100.0	Full consolidation
Tata Consultancy Services UK Limited	100.0	Full consolidation
TCS Business Services GmbH	100.0	Full consolidation
Tata Consultancy Services Ireland Limited	100.0	Full consolidation
TCS Technology Solutions AG	100.0	Full consolidation
Tata Consultancy Services Bulgaria EOOD	100.0	Full consolidation
Tata Consultancy Services Guatemala, S.A	100.0	Full consolidation

Source: TCS annual report FY2024; Note: ICRA has taken a consolidated view of the parent (TCS), its subsidiaries and associates while assigning the ratings.

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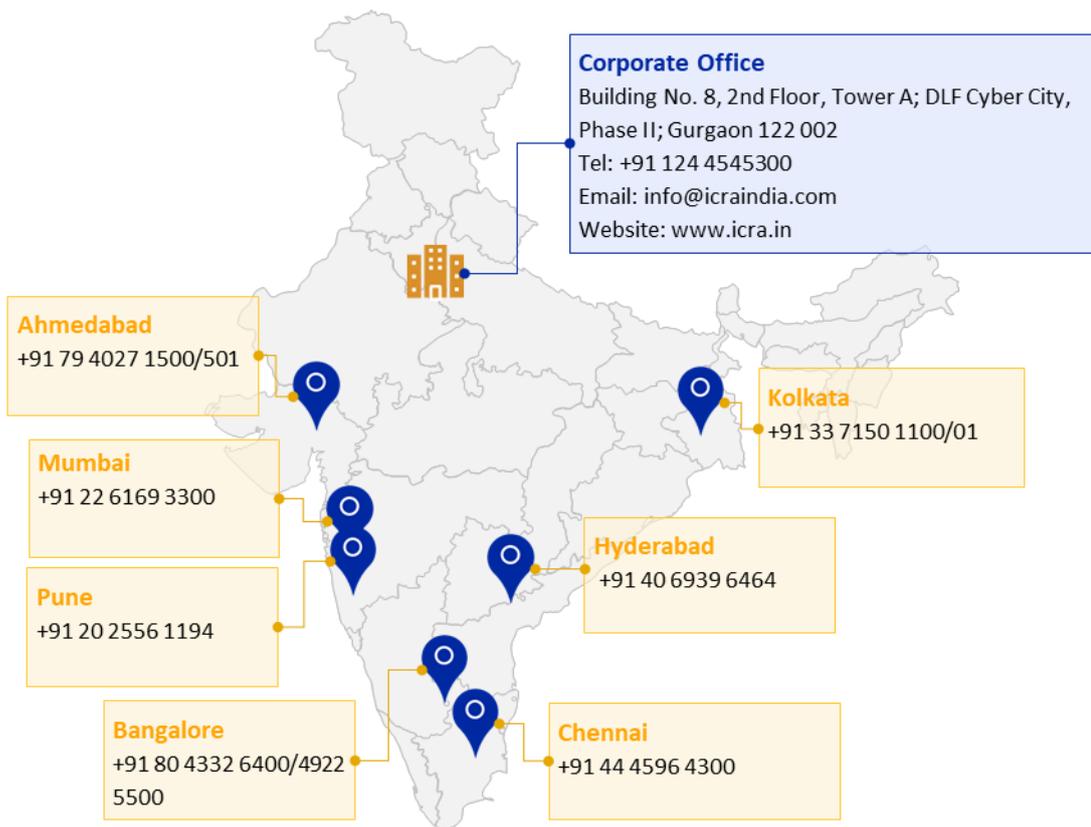
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