May 30, 2022

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	6,174.90	6,312.64	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Long-term/short-term Fund-based/Non-fund based	593.30	491.74	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Long-term/short-term unallocated	211.80	175.62	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Total	**7,000.0**	**7,000.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors 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, and presence in diversified verticals and established execution track record that has helped it build scale.

TCS posted ~15.4% YoY revenue growth in constant currency terms in FY2022, supported by accelerated demand for digital services (cloud and digital transformation). The company has an all-time high order book with deal wins of TCV[1] worth $11.3 billion in Q4 FY2022. This includes two mega deals of ~$1 billion each. TCS' TCV stood at $34.6 billion for FY2022, recording growth of 10% YoY. Coupled with a steady demand outlook, this provides healthy revenue visibility. The company continued to report industry best operating margins in FY2022, though the same was moderated slightly primarily due to wage cost inflation on the back of supply side pressures with high attrition rates across the industry. Margins are likely to witness continued pressure in the near term owing to wage cost inflation and normalisation of operational overheads. However, attrition levels are likely to start tapering from the end of the current fiscal, as record net employee addition at the industry level in FY2022 is likely to address the demand–supply gaps to a large extent. Coupled with better realisation and operational efficiencies, this is likely to support the profit margins over the medium term.

The ratings continue to favourably factor in TCS' continued strong financial profile characterised by healthy cash accruals, negative net debt position and robust liquidity profile (cash balances and liquid investments of Rs. 56,053 crore as on March 31, 2022), despite high shareholder return pay-out in previous years.

ICRA notes the competition faced by the company from other prominent players in the global IT services industry, which limits pricing flexibility to an extent. Moreover, the industry continues to face challenges in the form of foreign currency fluctuations, talent acquisition and retention. The demand for IT services remains exposed to macro-economic uncertainties in TCS' key operating markets of the US, Europe and India.

The Stable outlook on the rating reflects ICRA's expectation that TCS' credit profile will continue to remain strong supported by its leadership position in the industry, significant financial flexibility reflected in its healthy profitability, strong cash generation from operations and robust liquidity position. The company is expected to benefit from the industry's healthy

[1] *TCV: Total Contract Value*

demand outlook, especially for digital services, and its established relationships with existing clients and diversified business presence across verticals.

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. 1,91,754 crore in FY2022 ($25.7 billion), TCS has remained the leading 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 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 have also given it a competitive edge, and helped it capture many transformational digital deals. The company has an all-time high order book with deal wins of TCV worth $11.3 billion in Q4 FY2022, and TCV of $34.6 billion for FY2022, recording YoY growth of 10%. The healthy order book coupled with steady demand outlook provides healthy revenue visibility.

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 recent fiscals, including 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 robust liquidity position – The company's financial profile remains robust as reflected in its high operating profitability, strong capital structure and robust liquidity position in the form of a strong cash and investments balance of Rs. 56,053 crore as on March 31, 2022. TCS' cash flows are expected to remain robust with healthy cash accruals, despite expected high shareholder return pay-out.

Credit challenges

Industry specific challenges like forex risk, high employee attrition and exposure to policies in key operating markets – With ~94% of TCS' standalone revenues being generated from exports, TCS is exposed to foreign currency fluctuations. To mitigate the same, TCS enters into various derivative contracts (forwards/options) to hedge against these exposures. The company is also impacted by industry-specific factors such as wage inflation and challenges of retention and reskilling of talent pool. The LTM[2] attrition for TCS as on March 31, 2022, was 17.4%, considerably higher than previous fiscals, although better than industry average. Attrition levels are likely to start tapering from the end of the current fiscal, as record net employee addition at the industry level in FY2022 is likely to address the demand–supply gaps to a large extent. TCS is also exposed to macroeconomic uncertainties and any adverse regulatory/ legislative changes in its key operating markets such as USA and Europe. Europe and North America drove ~82% of its revenue in FY2022, in line with global industry trends.

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 tough competition from domestic players such as Infosys, HCL Technologies and Wipro, as well as from international players like IBM, Accenture,

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[2] *LTM: Last 12 months*

Cognizant, and Capgemini, among others. There are various smaller niche technology players, which leads to intense competition in the industry, while bidding for new contracts.

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 also strengthened by sizeable free cash/bank balances and investments of Rs. 56,053 crore as on March 31, 2022.

Despite the high dividend pay-outs and 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 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 disproportionate dividend pay-outs and/or a large debt-funded acquisition.

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, 2022, TCS had 52 subsidiaries that are listed in Annexure-2.

About the company

Established in 1968 as a division of Tata Sons, TCS is currently the largest Indian IT services company. It 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 Private Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+) holding 72.3% equity stake (as on March 31, 2022) in it.

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: a.) banking, financial services and insurance (BFSI); b.) retail and consumer business; c.) communication, media and technology; d.) manufacturing; and e.) other businesses. 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, Middle East and Africa.

Key financial indicators (audited)

TCS - Consolidated	FY2021*	FY2022
Operating Income (Rs. crore)	164177.0	191754.0
PAT (Rs. crore)	32562.0	38449.0
OPBDIT/OI (%)	28.4%	27.7%
PAT/OI (%)	19.8%	20.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)#	0.2	0.1
Interest Coverage (times)	73.1	67.7

Source: TCS, ICRA research All ratios as per ICRA calculations

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

* In FY2021, the company's net profit includes a onetime legal provisioning claim of Rs. 958 crores, net of tax. #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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 22, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 30, 2022	Sep. 20, 2021	Mar 30, 2021	Mar 24, 2020
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	6,312.64	-	[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	491.74	-	[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	175.62	-	[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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	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	6,312.64	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Fund/Non-Fund-based Limits	NA	NA	NA	491.74	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Unallocated	NA	NA	NA	175.62	[ICRA]AAA(Stable)/[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	TCS Ownership	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 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.	93.2	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 Danmark ApS	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
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

Company Name	TCS Ownership	Consolidation Approach
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 Conslidation
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
Saudi Desert Rose Holding B.V.	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 FY2022*

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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