

Tata Consultancy Services Limited

December 21, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term, Fund-based Limits	0.0	20.0	[ICRA]A1+; reaffirmed
Long-term/Short-term, Fund-based Limits	500.0	200.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Long-term/Short-term, Non Fund-based Limits	620.0	4,227.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Long-term/Short-term Fund-based/Non Fund-based	4,939.0	2,450.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	6,059.0	6,897.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term and short ratings of [ICRA]AAA(Stable) (pronounced ICRA triple A) and [ICRA]A1+ (pronounced ICRA A one plus)¹ respectively, assigned to the Rs. 200.0 crore² (revised from Rs. 500.0 crore) long-term/short-term fund based limits, Rs. 4,227.0 crore (enhanced from Rs. 620.0 crore), long-term/short-term, non fund-based limits and Rs. 2,450.0 crore (revised from Rs. 4,939.0 crore) long-term/short-term fund-based/non fund-based limits of Tata Consultancy Services Limited (TCS). ICRA has also reaffirmed long-term rating of [ICRA]A1+ to the Rs. 20.0 crore fund based limits of the company. The outlook on the long term rating is 'Stable'.

Rationale

The ratings factor in the leading position of TCS 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 offered and strong financial profile characterised by revenue growth, healthy recurring cash accruals and net cash position. The ratings to continue to draw comfort the company's presence in diversified verticals and solid execution track record which has helped it gain market share. ICRA notes that the growth of Indian IT services companies will be impacted by lower demand led by an uncertain macro-economic environment, lower deal sizes in digital technologies, cloud adoption and high competitive intensity from local as well as international players. However, the growth is expected to be supported by higher spend on digital technologies, continued cost benefit offered through outsourcing model and market share gains. BFSI remains a key vertical for TCS despite subdued growth on account of holding back of discretionary spends. The BFSI vertical has shown resilience in the past even during periods of turmoil in the global financial markets, demonstrating strength of TCS's business and goodwill it enjoys from its clients. ICRA also notes the company's investment in digital technologies in the past few years reflected in the growing share of the same in the company's portfolio and which will remain critical to drive the industry and company growth.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

The Indian IT services industry continues to face geo-political uncertainties such as proposed legislations on restricting outsourcing or immigration in its key markets (like the US immigration bill) which may have an adverse impact on the current business model of the industry. ICRA also notes the company's exposure to macroeconomic uncertainties such as the Brexit issue; the impact of which remains to be seen on the Indian IT services industry.

The margins for the Indian IT services companies will continue to reflect the challenging operating environment characterised by continued pressure on commoditised IT services, wage inflation, higher onsite costs necessitated by visa curbs as well as lower discretionary spend by corporate firms. These risks are, however, mitigated by TCS's large scale of operations, diversified customer base across geographies and long presence in the IT services business and its ability to generate operational efficiencies to mitigate such pressures. Further, the company's liquidity profile remains strong given cash and equivalents of Rs. 35,840 crore as on September 30, 2017, low capital expenditure requirements and robust free cash flow generation (before acquisitions) providing buffer against any short term fluctuations.

Outlook: Stable

The stable rating outlook factors in ICRA's expectations that credit profile of TCS will continue to remain strong driven by its competitive business model and significant financial flexibility reflected in its healthy profitability, healthy free cash flow generation and robust liquidity position. The outlook may be revised to 'Negative' in case of any material debt-funded acquisition adversely impacting its financials.

Key rating drivers

Credit strengths

Largest Indian company in the global IT services outsourcing segment has remained competitive, given its access to large technical talent pool and cost advantages in India - With scale at Rs. 117,966 crore for FY2017 (USD 17.6 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 providing 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 a full services capability has helped it win deals across a wide spectrum of verticals and it has demonstrated an ability to execute large-scale projects globally enabling it to gain market share over its competitors in the past five fiscals.

The company has made significant organic investments in manpower training and developing capabilities which has helped it drive high sequential growth in its digital business over the past nine quarters. This has resulted in improvement in share of digital business to 19.7% in Q2 FY2018 from 12.5% in Q1 FY2016.

Diversified client base with high repeat business - The company has a large diversified client base with a number of clients in the above USD 50 million and USD 100 million buckets. 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 high operating profitability, strong capital structure and robust liquidity position reflected in strong cash and equivalent of Rs. 35,840 crore as on September 30, 2017.

Credit weaknesses

Slowing revenue growth from traditional outsourcing business, ability to adapt and win fresh digital business would be critical for future growth - The IT services industry is 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 has been negatively impacted by cloud computing. Companies are spending on smaller initiatives build around digital technologies to drive business outcomes. Thus, TCS's ability to adapt and win a higher share of digital business would be critical for driving future growth.

Legislation to restrict outsourcing or restriction on immigration such as implementation of the US immigration bill could be detrimental for current business model leading to revenue and margin pressure - In the past two years, there have been uncertainties over the new US Government's visa policies towards its non-immigrant and temporary visa programmes such as the H-1B and L1. Any adverse development may prove to be detrimental for the current business model of the company leading to pressure on revenues and margins. ICRA nevertheless notes the company's endeavour towards hiring local talent across countries particularly in US to mitigate the above risks.

High concentration in BFSI (Banking, Finance Services and Insurance) vertical mitigated by past track record of consistent performance: The company has high concentration of revenues driven by the BFSI (one-third of revenues) segment though the same is mitigated by its long standing relationship with clients as well as deep domain knowledge. Demand for the sector has been adversely impacted by current macroeconomic conditions affecting the industry including sustained low interest rates and weakening of the British Pound due to the result of the Brexit referendum. The business is supported by digitisation efforts, cost optimisation, regulatory, compliance and security driven initiatives. Any further slowdown in spending in the BFSI sector could have a negative impact on the company's growth.

Analytical approach: ICRA has taken a consolidated view of Tata Consultancy Services Limited. For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Information Technology \(Services\) Industry](#)

About the company:

Established in 1968 as a division of Tata Sons, Tata Consultancy Services Limited (TCS) 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 services provider with a global footprint. It got listed in 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 73.52% equity share (as on September 30, 2017) 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 or BPM solutions). TCS has also diversified into software products mainly through the inorganic route. Its portfolio of software products includes Financial Solutions (BaNCS), health and life science industry solutions and asset leverage solutions. Based on industry verticals, the company is focused on the BFSI segment, with retail, communication and media, manufacturing and technology and services being the other major segments. TCS has a widespread geographical presence including the US, continental Europe, UK, India, Asia Pacific and Middle East.

For the six months ended September 30, 2017, TCS reported a profit after tax of Rs. 6,460.0 crore on revenues/operating income of Rs. 30,541.0 crore.

Key Financial Indicators (Audited)

	FY2016	FY2017
Revenues /OI (Rs. crore)	108,646.0	117,966.0
PAT (Rs. crore)	24,338.0	26,357.0
OPBDIT/ OI (%)	28.2%	27.4%
RoCE (%)	53.6%	44.6%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest coverage (times)	929.6	1,009.7
NWC/ OI (%)	23%	20%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed = PBIT/Avg (Total Debt + Tangible Net-Worth (TNW) + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				December 2017	December 2016	November 2015	January 2015	July 2014
1	Fund-based Limits	20.0	NA	[ICRA]A1+	-	-	-	-
2	Fund-based Limits	200.0	NA	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+
3	Non Fund-based Limits	4,227.0	NA	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+
4	Fund-based/Non Fund-based	2,450.0	NA	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+	[ICRA]AAA (Stable)/[ICRA]A1+
5	CP	-	-	-	-	-	Withdrawn	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term, Fund-based Limits	NA	NA	NA	20.0	[ICRA]A1+
NA	Long-term/Short-term, Non-fund based Limits	NA	NA	NA	200.0	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Long-term/Short-term, Non-fund based Limits	NA	NA	NA	4,227.0	[ICRA]AAA (Stable)/[ICRA]A1+
NA	Long-term/short-term Fund-based/Non-fund based	NA	NA	NA	2,450.0	[ICRA]AAA (Stable)/[ICRA]A1+

Source: Tata Consultancy Services Limited

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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