

Tata Consultancy Services Limited

March 19, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action ¹
Short-term, Fund-based Limits	20.0	0.0	-
Long-term/Short-term, Fund-based Limits	200.0	200.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Long-term/Short-term, Non Fund-based Limits	4,227.0	5,000.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Long-term/Short-term Fund-based/Non Fund-based	2,450.0	1,800.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	6,897.0	7,000.0	

* Instrument details are provided in Annexure-1

Rationale

The ratings favourably factor in the leading position of Tata Consultancy Services Limited (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 strong liquidity in the form of free cash reserves. The ratings continue to draw comfort from the company's presence in diversified verticals and solid execution track record, which has helped it gain market share. Banking, finance services and insurance (BFSI), the key vertical for TCS (~31% of revenues) after a subdued performance during FY2018 due to holding back of discretionary spends, has reported recovery in YoY growth during the first three quarters of FY2019. This was supported by increased spends by banks on new generation services and respite on insourcing by some of its key banking clients. The BFSI vertical's resilient performance during past periods of turmoil demonstrates the strength of TCS's business and the goodwill it enjoys from its clients. ICRA notes that the growth of Indian IT services companies has been constrained by cloud adoption, sharp shift towards digital services and high competitive intensity from local as well as international players. However, TCS with its early investments in digital services has been able to capture higher spends on digital technologies. The share of digital services in the company's portfolio has increased to 30.1% of revenues in Q3 FY2019 from 16.7% during FY2017. Further, the company's integrated service offerings, backed by its own intellectual property rights (IPRs) and domain knowledge have helped it participate in and execute large deals, thus enabling it to withstand competitive pressure. The above factors combined with continued cost benefit through an outsourcing model have resulted in market share gains for the company. TCS's continued ability to win higher share in digital technologies will remain critical to drive its growth.

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. The demand for IT services remains exposed to macro-economic uncertainties such as a growth slowdown in key markets of the US and Europe and the ongoing Brexit issue, which may pose a challenge to the Indian IT services industry.

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, higher onsite costs necessitated by visa curbs

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

leading to increased local hiring 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 established presence in the IT services business. ICRA also notes its ability to generate operational efficiencies to counter such pressures. Further, the company's liquidity profile remains strong, given cash and equivalents of Rs. 43,800 crore as on December 31, 2018, and low capital expenditure requirements providing buffer against any short-term fluctuations; although its liquid reserves will remain sensitive to the level of dividend payouts and further buybacks, if any.

Outlook: Stable

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

Key rating drivers

Credit strengths

Largest Indian company in the global IT services outsourcing segment continues to remain competitive, given its access to large technical talent pool and cost advantages in India - With scale at Rs. 123,104 crore for FY2018 (\$19.1 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 a full services capability has helped it win deals across a wide spectrum of verticals. It has also demonstrated an ability to structure and 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 quarters. This has resulted in improvement in share of digital business to 30.1% in Q3 FY2019 compared to 21.2% in FY2018 with a robust 52.7% YoY growth in digital during Q3 FY2019.

Diversified client base with high repeat business - The company has a large diversified and growing client base with a number of clients in the above \$50-million and \$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 its high operating profitability, strong capital structure and robust liquidity position reflected in strong cash and equivalent of Rs. 43,800 crore as on December 31, 2018.

Credit challenges

Slowing revenue growth from traditional outsourcing business, continued ability to adapt and win fresh digital business would be critical for future growth - The IT services industry has 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 has been negatively impacted by cloud computing. Companies are increasingly spending on initiatives built around digital technologies to drive business outcomes. Against this backdrop, TCS's continued ability to adapt and win a higher share of digital business at scale 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 pressures - In the past two to three years, there have been uncertainties over 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 for the current business model of the company leading to pressure on revenues and margins. ICRA notes the company’s endeavour towards hiring local talent across countries and increase reliance on sub-contractors, particularly in the US, to mitigate the above risks.

High concentration in BFSI vertical mitigated by track record of consistent performance - The company has high concentration of revenues driven by the BFSI (almost one-third of revenues) segment, although the same is mitigated by its established relationship with clients as well as deep domain knowledge. Demand for the sector had been adversely impacted by macro-economic conditions affecting the industry, including sustained low interest rates and continued focus on cost optimisation, managing their discretionary spends as well as in-sourcing by a few clients for the want of greater operational control. The business is supported by digitisation efforts, cost optimisation, regulatory, compliance and security driven initiatives. However, the BFSI segment has started showing signs of acceleration with YoY growth accelerating to 4.1% in Q1 FY2019, 6.1% in Q2 FY2019, and subsequently to 8.6% in Q3 FY2019 from a low of 2.9% in Q4 FY2018. The acceleration is largely on account of recovery in the US market as in-sourcing pressure was somewhat abated and further supported by increased spending by banks on newer large transformation programmes.

Liquidity position

TCS has been consistently able to generate robust cash flow from operations supported by healthy operating profitability and controlled working capital intensity. The company had a robust liquidity position with cash and equivalents of Rs. 43,800 crore as on December 31, 2018. Despite regular dividend payouts and buybacks during the current and last fiscals, the company’s liquidity position is expected to remain strong, given the high recurring operating cash flows. However, ICRA has not factored in any material inorganic expansion plan by the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (Services) Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Rating based on consolidated financial profile of the firm. As on December 31, 2018, the company had 50 subsidiaries that are all 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 services provider with a global footprint. It was 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 72.02% equity share (as on December 31, 2018) 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). 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 across the US, continental Europe, the UK, India, Asia Pacific and Middle East.

For the nine months ended December 31, 2018, TCS reported a profit after tax of Rs. 23,410.0 crore on revenues/operating income of Rs. 108,453.0 crore.

Key financial indicators (audited, consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	117,966.0	123,104.0
PAT (Rs. crore)	26,357.0	25,880.0
OPBDIT/ OI (%)	27.4%	26.4%
RoCE (%)	44.6%	40.3%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest Coverage (times)	1,009.7	625.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Proposed Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating March 2019	Date & Rating in FY2018 December 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 November 2015
Fund-based Limits	Short-term	0.0	-	-	[ICRA]A1+	-	-
Fund-based Limits	Long-term/Short-term	200.0	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
Non Fund-based Limits	Long-term/Short-term	5,000.0	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
Fund-based/Non Fund-based	Long-term/Short-term	1,800.0	-	[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 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)	Rating and Outlook
NA	Long-term/Short-term, Fund based Limits	NA	NA	NA	200.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Long-term/Short-term, Non-fund based Limits	NA	NA	NA	5,000.0	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Long-term/short-term Fund-based/Non-fund based	NA	NA	NA	1,800.0	[ICRA]AAA(Stable)/[ICRA]A1+

Source: TCS

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
TCS Foundation	100.00%	Full consolidation
Tata America International Corporation	100.00%	Full consolidation
Tata Consultancy Services Asia Pacific Pte Ltd	100.00%	Full consolidation
Tata Consultancy Services Malaysia Sdn Bhd	100.00%	Full consolidation
Tata Consultancy Services (China) Co.,Ltd	93.20%	Full consolidation
PT TCS Indonesia	100.00%	Full consolidation
Tata Consultancy Services (Thailand), Ltd	100.00%	Full consolidation
Tata Consultancy Services (Philippines) Inc	100.00%	Full consolidation
Tata Consultancy Services Japan, Ltd	51.00%	Full consolidation
TCS FNS Pty Limited	100.00%	Full consolidation
TCS Financial Solutions Australia Holdings Pty Limited	100.00%	Full consolidation
TCS Financial Solutions Australia Pty Limited	100.00%	Full consolidation
TCS Financial Solutions Beijing Co., Ltd.	100.00%	Full consolidation
Tata Consultancy Services Belgium SA	100.00%	Full consolidation
Tata Consultancy Services Deutschland GmbH	100.00%	Full consolidation
Tata Consultancy Services Sverige AB	100.00%	Full consolidation
Tata Consultancy Services Netherlands BV	100.00%	Full consolidation
TCS Luxembourg	100.00%	Full consolidation
TCS Italia SRL	100.00%	Full consolidation
Tata Consultancy Services Osterreich GmbH	100.00%	Full consolidation
Tata Consultancy Services Danmark ApS	100.00%	Full consolidation
Tata Consultancy Services Saudi Arabia	76.00%	Full consolidation
TCS de Espana SA	100.00%	Full consolidation
TCS Portugal Unipessoal Lda	100.00%	Full consolidation
TCS Switzerland	100.00%	Full consolidation
TCS France S.A.	100.00%	Full consolidation
Diligenta Limited	100.00%	Full consolidation
TCS IberoAmerica S.A.	100.00%	Full consolidation
TCS Solution Center S.A.	100.00%	Full consolidation
TCS Argentina S.A.	99.99%	Full consolidation
TCS do Brazil Ltda.	100.00%	Full consolidation
TCS de Mexico SA de CV	100.00%	Full consolidation
TCS Inversions Chile Ltda.	100.00%	Full consolidation
Tata Consultancy Services Chile, S.A.	100.00%	Full consolidation

TataSolution Center S.A.	100.00%	Full consolidation
Technology Outsourcing S.A.C	100.00%	Full consolidation
TCS Uruguay S.A.	100.00%	Full consolidation
MGDC SC	100.00%	Full consolidation
CMC Americas Inc	100.00%	Full consolidation
Tata Consultancy Services Canada Inc.	100.00%	Full consolidation
APT Online Limited	89.00%	Full consolidation
C Edge Technologies	51.00%	Full consolidation
MP Online	89.00%	Full consolidation
MahaOnline Limited	74.00%	Full consolidation
TCS Africa Pty Ltd	100.00%	Full consolidation
TCS South Africa Pty Ltd	100.00%	Full consolidation
TCS e-Serve International Limited	100.00%	Full consolidation
TCS e-Serve America, Inc.	100.00%	Full consolidation
TCS Qatar LLC	100.00%	Full consolidation
W12 Studios Limited	100.00%	Full consolidation

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