

July 24, 2023

Tata Consultancy Services Limited: Ratings reaffirmed; rated amount enhanced

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	6,312.64	8,295.56	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed/ assigned
Long-term/ Short-term Fund-based/ Non-fund Based	491.74	521.44	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed/ assigned
Long-term/ Short-term Unallocated	175.62	163.00	[ICRA]AAA(Stable)/[ICRA]A1+ reaffirmed
Total	7,000.0	9,000.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in Tata Consultancy Services Limited's (TCS) 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, and presence in diversified verticals and established execution track record that has supported healthy scaling up of revenues over the years. TCS posted ~13.7% YoY revenue growth in constant currency terms in FY2023, supported by continued healthy demand for digital services (cloud and digital transformation) following the pandemic. However, growth momentum has moderated in recent quarters due to macro-economic headwinds in the key markets of North America and Continental Europe, leading to reevaluating the discretionary spends by customers. ICRA expects the growth to remain subdued in the near term owing to persistent uncertainty in these markets. Nonetheless, TCS's robust order pipeline as of June 30, 2023, coupled with strong long-term growth levers with technology being a key part of capital allocation for corporates, provide healthy revenue visibility over the medium term.

TCS's operating margins have remained higher than its peers in FY2023 and Q1 FY2024, though the same moderated slightly over this period primarily due to continued wage cost inflation and normalisation of operational expenses after the pandemic. This was partially mitigated by improvement in realisations to some extent, benefit from a flatter employee pyramid. Operating margins are likely to remain stable in the near term supported by TCS's leadership position, wage cost stabilisation and cost optimisation initiatives. The ratings also continue to favourably factor in TCS's continued strong financial profile characterised by healthy cash accrual generation, negative net debt position and robust liquidity profile (cash balances and investments of Rs. 60,942 crore as on June 30, 2023), despite high shareholder return pay-outs in recent 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's key operating markets.

The Stable outlook on the long-term rating reflects ICRA's opinion that despite some moderation in growth momentum in the near term, TCS's 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 a scale of Rs. 2,25,458 crore in FY2023 (\$27.9 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’s significant organic investments in manpower training and developing capabilities have also given it a competitive edge, and helped it capture many transformational digital deals. Despite the uncertain global macro-economic conditions, the company’s order book and pipeline remain strong with deal wins of TCV worth \$10.2 billion in Q1 FY2024, and of \$34.1 billion for FY2023, which provides 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 recent fiscals, including FY2023. 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. 60,942 crore as on June 30, 2023. Going forward, its financial profile is expected to remain robust with healthy cash accruals, despite the expected high shareholder return payout.

Credit challenges

Industry specific challenges like forex risk, high employee attrition and exposure to macro-economic environment and policies in key operating markets – With most of TCS’s revenues being generated from exports, it is exposed to foreign currency fluctuations. To mitigate the same, TCS typically enters 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 talent retention and reskilling. The attrition levels were on increasing trend in FY2022 and till H1 FY2023, with attrition level of ~21.5% as on September 30, 2022, Nonetheless, it is on declining trend in last three quarters with LTM¹ attrition of 17.8% as on June 30, 2023, though still higher than previous levels. ICRA expects this trend to continue going forward before stabilising at long term average by the end of the current fiscal. The company is also exposed to macro-economic uncertainties and any adverse regulatory/ legislative changes in its key operating markets of North America and Europe (including the UK). Europe and North America drove ~83% of its revenue in FY2023, in line with global industry trends. In line with this trend, over the past few quarters, TCS witnessed a moderation in growth momentum mainly in North America and Continental Europe due to macro-economic headwinds. Though performance in the UK market was more resilient over this period.

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,

¹ 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.

ESG Risks

Environmental concern:

Given the service-oriented business, TCS's direct exposure to environmental risks as well as those emanating from regulations or policy changes are not material.

Social concerns:

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 lapses on this front could result in substantive 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 motivated by those economies' own social and political considerations, they could have the effect of heightening the 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 in any case a key differentiating factor among IT companies. TCS's record on this count has been better than other players in the IT service industry, which mitigates the human capital induced social risk.

Liquidity position: Superior

TCS's 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. 60,942 crore as on June 30, 2023. 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 rating 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/share buybacks 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, 2023, TCS had 51 subsidiaries that are listed in Annexure-II.

About the company

Established in 1968 as a division of Tata Sons, 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-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 72.3% equity share (as on March 31, 2023) 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 services being its other major segments. TCS has a widespread geographical presence including in the US, Continental Europe, the UK, India, Asia Pacific and West Asia.

Key financial indicators (audited)

TCS - Consolidated	FY2022	FY2023
Operating income	191,754	225,458
PAT	38,449	42,303
OPBDIT/OI	27.7%	26.3%
PAT/OI	20.1%	18.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	67.7	76.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				July 24 , 2023	May 30, 2022	Sep 20, 2021	Mar 30, 2021
1	Fund-based Limits	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	8,295.56	-	[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	521.44	-	[ICRA]AAA(Stable)/ [ICRA]A1+	[ICRA]AAA(Stable)/ [ICRA]A1+	[ICRA]AAA(Stable))/[ICRA]A1+	[ICRA]AAA(Stable))/[ICRA]A1+
4	Unallocated	163.00	-	[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	8,295.56	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Fund/Non-Fund-based Limits	NA	NA	NA	521.44	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Unallocated	NA	NA	NA	163.00	[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	Consolidation Approach
	(in %)	
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.	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

Company Name	TCS Ownership	Consolidation Approach
	(in %)	
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
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
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 FY2023 Note: ICRA has taken a consolidated view of the parent (TCS), its subsidiaries and associates while assigning the ratings.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Pawan Mundhra
+91 20 6606 9918
pawan.mundhra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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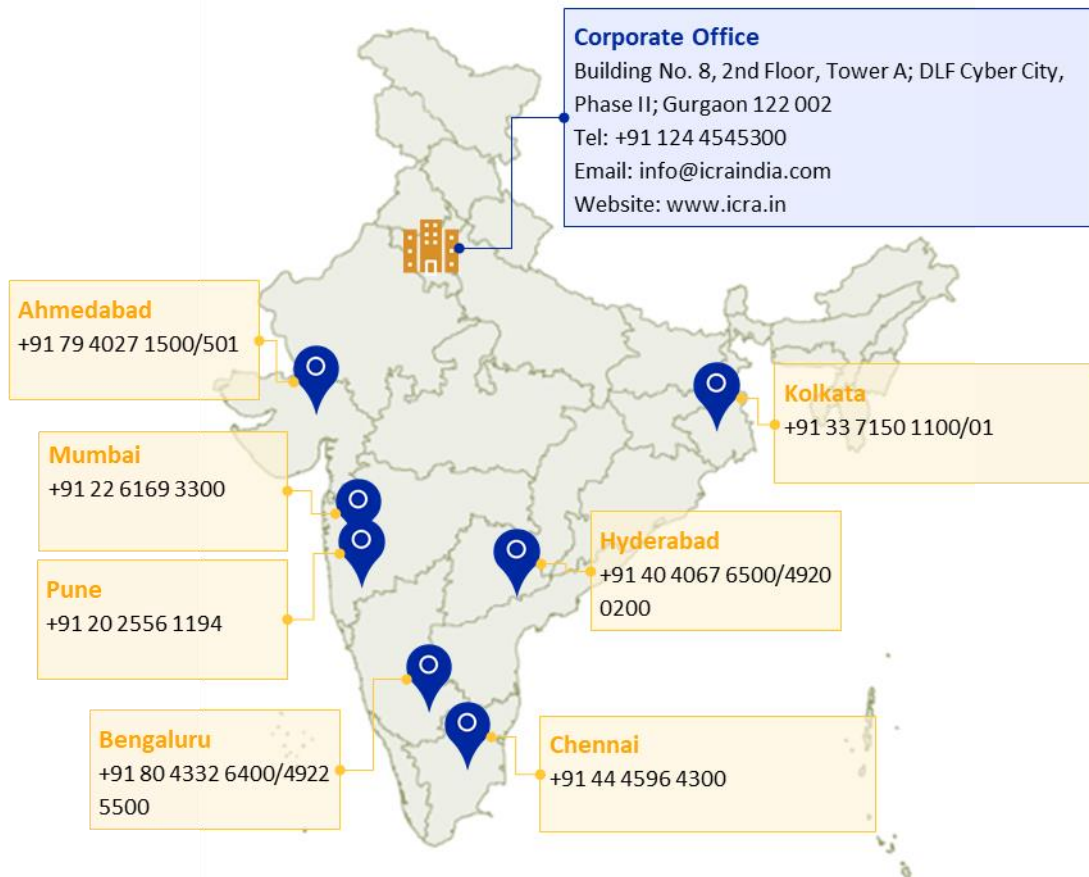
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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