

CompanyViews

THE RISE AND RISE OF TCS

AUGUST 2020

Anthony Miller

TECHMARKETVIEW

www.techmarketview.com

Email: amiller@techmarketview.com

 Tech
Market
View
UK DEPTH GLOBAL TRENDS

Preface

In June 2020, TechMarketView published its annual rankings of the leading suppliers of software, IT and business process services (SITS) to the UK market, [UK Software and IT Services Rankings 2020](#). Rising to second place was **TCS**, now one of the world's largest and most respected tech companies, beating IBM and Accenture for the first time for any Indian Heritage Provider (IHP).

This CompanyViews note traces the history of TCS in the UK, highlighting some of the key milestones that saw the company grow to become one of the most successful players in the UK SITS market.

About the author

Anthony Miller is Co-founder and Managing Partner of TechMarketView LLP. He has been tracking the Indian Heritage Providers for over twenty years as both industry analyst and equities analyst. He is widely respected as the UK's preeminent commentator on the Indian offshore services scene.

Acknowledgements

The author wishes to thank past and present TCS UK&I managing directors for spending the time to help add context to this note. They are:

- **AS ('Lakshmi') Lakshminarayanan** (TCS UK&I MD 1999-2011); now Managing Director & CEO at Tata Communications
- **Shankar Narayanan** (TCS UK MD 2011-2019); now TCS head of Global Retail, CPG, Travel & Hospitality
- **Amit Kapur**, current TCS UK&I MD

Contents

The early days	4
Thinking big	5
Changing of the guard (1)	7
Changing of the guard (2)	8
The TCS secret sauce	9
The road to Number One	11
TCS UK selected milestones	12

The early days

Tata Group

TCS (Tata Consultancy Services) is the flagship technology arm of Indian industrial conglomerate, Tata Group, whose businesses also include Tata Steel, Tata Motors, Tata Communications, Tata Power, among others. Founded in 1868 by Jamsetji Tata and headquartered in Mumbai, Tata Sons is the holding company for Tata Group's businesses, of which TCS is the largest by market cap, at around \$110b, some 70% of the aggregate value of Tata Group companies. Tata Group reported revenues of \$113b in its most recent annual report (to 31st March 2019).

Having established Tata Limited in 1907 in UK as its first base in Europe, Tata has grown to become one of the largest manufacturing groups in the UK, comprising 19 companies with over 50,000-employees spread across the region. Today, Tata is present in several European countries including Spain, Germany, France and Switzerland.

Tata Consultancy Services

Originally established as Tata Computer Services and launched on 1st April 1968, TCS then operated solely in the Indian market. It was not until 1971 that TCS won its first overseas assignment from a middle-eastern power generation and distribution company for management consultancy services to organize their stores and build a computerised inventory control system. In 1979 TCS set up its first sales office in New York, having already reached \$1m in export revenues three years earlier. The office was headed by future CEO, S Ramadorai.

TCS launched on the National Stock Exchange in 2004 at a share price of Rs1,199, valuing the company at some Rs60b, at the time the third most valuable company in India.

TCS UK

TCS established operations in Europe in 1975 with an office in the UK. TCS won its first UK project a year prior, building a financial accounting package for two building societies in the UK on behalf of Burroughs. At the time, TCS was partnering with Burroughs to distribute and support its products in India as well as building software that would be exported to various Burroughs units and clients across the world. The specs for the project were written by a young chartered accountant named S Mahalingam, who went on to become TCS CFO from 2004 to 2013.

It was Y2K that provided the boost to the fortunes of TCS and its IHP peers. Their proposition of being able to apply large numbers of low-cost programmers to update vast amounts of legacy code was extremely attractive to corporate enterprises and established the Indian offshore services industry as a viable low-cost alternative to traditional major-league IT services firms.

Leading TCS UK&I at the time was Amur 'Lakshmi' Lakshminarayanan, who joined TCS back in 1983. Lakshmi, now Managing Director & CEO at Tata Communications, was pivotal to transforming the fortunes of TCS in the UK and beyond. He succeeded S Balasubramanian, since retired. Prior to Bala, Surya Kant led TCS UK&I between 1992 and 1995. Kant is now President for TCS North America, UK and Europe.

Lakshmi first came to the UK in 1987 as a software engineer to work on a project in London at a subsidiary of *Lloyds Bank*. He later led a Burroughs-to-IBM migration project at Sun Life in Bristol and returned to India in 1991. Lakshmi was recalled to Bristol the following year to lead what became TCS' regional office, after the company had won a number of new clients based in the area. Lakshmi was promoted to MD for UK&I after Bala retired.

Thinking big

When Lakshmi was appointed TCS UK MD in 1999, he was told by TCS top management to 'think big!' At the time, TCS UK was still a small business with revenues of some £46m. Lakshmi was determined to change the perception of TCS as an Indian offshore application maintenance company to be seen as a full-line UK IT services capable of handling major development projects. To do this, he pitched to win a deal with Sun Life that would require TCS to take on hundreds of the client's employees – which would have been the first such deal for TCS. However, the contract was eventually won by FI Group¹, a UK IT services company with experience in employee transfer.

Lakshmi set to work to 'localise' TCS UK, hiring UK employees into the business. His strategy started to bear fruit in 2006 when TCS won a \$65m 7-year outsourcing contract with UK supermarket chain Somerfield², its first involving transfer of customer personnel.

Lakshmi used the beachhead TCS had established with clients to expand into service lines beyond traditional application development and management. This included services such as ERP package implementation, infrastructure management services and, in what was to turn out to be a significant factor for TCS' meteoric growth, business process outsourcing (BPO), now more usually called business process services (BPS). These services have created opportunities for TCS to expand its relationship with its clients in other service lines. Significantly, Lakshmi also extended TCS UK's presence into other industry sectors, notably Public Sector and Utilities.

Opening a closed book with Diligenta

Early in the new decade Lakshmi challenged his top management team, by then all UK recruits, to think of a 'big problem' that TCS could solve. They came up with 'closed book' life and pensions (L&P) processing, a market owned by Capita, then as now the UK market leader in business process services and currently the UK SITS market leader.

Lakshmi and his team saw the L&P market as ripe for a new entrant with a technology-based solution and with enough clout to challenge Capita's traditional outsourcing service. Closed-book policy management is an economies-of-scale play; the more policies you process, the cheaper they become to service. Technology would be the key. But first TCS had to gain a foothold in that market and that would involve making a big bet. The bet was eventually to pay off big time.

In April 2006, TCS announced its largest deal ever, with UK insurer, Pearl Group. Pearl had had a long relationship with TCS for application support, though was not among TCS' top 20 customers at the time. The 12-year deal, valued at £486m, saw TCS transfer Pearl's policy administration operations – and over 1,000 employees – to its newly-created FCA-regulated subsidiary Diligenta, in what was at the time the largest contract ever won by any Indian Heritage Provider (see [TCS inches closer to opening the 'Pearly' gates](#)).

TCS won a hard-fought battle against Capita for the Pearl deal – a then rare and unexpected loss for Capita in this space – as well as incumbent infrastructure outsourcer CSC. This was a complex exercise. TCS had to migrate 4m closed book Life & pensions (L&P) policies spread across eleven disparate IT systems to TCS' proprietary IIMS insurance platform³. This would be the first implementation of IIMS in the UK, for which it would need extensive customisation. At the time, there were no plans to migrate Pearl's policy administration work offshore.

¹ FI Group subsequently rebranded to Xansa which was acquired by Steria in 2007. Steria was acquired by Sopra in 2014

² Somerfield was acquired by the Co-op in 2008

³ IIMS was subsequently folded into the BaNCS solution set

The megadeals flow

TCS had big expectations for Diligenta, but it was another two years before the second client came on board.

In 2008 TCS won a £100m contract for Diligenta to take over policy administration for Sun Life Financial of Canada UK's (SLF UK) operations. Two years after that, TCS won a £250m/8-year contract for Diligenta to take on the policy administration for closed life fund consolidator, *Phoenix Group* (the erstwhile Pearl Group) that was previously handled by UISL, the L&P BPO division of Unisys UK (see [TCS sees Phoenix rising](#)). The UISL policies were to be migrated to BaNCS, which had since become Diligenta's core processing platform. This was the first new BaNCS client since the original Pearl deal (SLF UK was a pure BPO deal and the system was not migrated to BaNCS).

The same year, TCS underwent a major global reorganisation into a predominantly verticalized, modular structure composed of about two dozen industry solutions units, each with end-to-end responsibility for a set of customers within an industry vertical, and owning its own profit & loss (P&L) account. As part of the reorganisation, Lakshmi took on the role as Head of Business Development for UK and Europe.

Then followed in quick succession a £600m 10-year contract with the UK Personal Accounts Delivery Authority (PADA) National Employment Savings Trust (NEST) which saw Diligenta take over managing the UK government's flagship low-cost personal pension scheme (see [TCS offers the "right onshore/offshore mix" at PADA](#)). This was a landmark deal for TCS – a 'green field' operation in which TCS had the opportunity to build a 'fit-for-purpose' solution on its own platform from the ground up. This solution could then be offered to other clients looking to outsource their L&P operations for the first time, or indeed 'second-generation' outsourced operations where the clients were looking for an alternative supplier.

In 2011, TCS won its largest contract then to date, a £1.37bn 15-year deal with UK-based pensions, investments and insurance provider Friends Life (see [here](#)). The deal was to see Diligenta administer 3.2m policies including most of Friend Life's closed book protection business and a significant part of its corporate benefits business.

Forays into Public Sector

As part of his 'think big' mission, and in particular to firmly establish TCS UK as a UK company, Lakshmi looked towards the public sector.

His first foray was as part of the Fujitsu Alliance (the other member was PwC) in bidding for the now infamous and ill-fated NHS National Programme for IT (NPfIT). TCS was to participate as a subcontractor to Fujitsu, a role that Lakshmi saw as a steppingstone to establishing direct relationships with the UK public sector.

That opportunity came in 2009, when TCS won a deal with the UK Child Maintenance and Enforcement Commission (CMEC) as prime integrator to replace two schemes currently provided by the Child Support Agency (see [TCS wins Child Maintenance SI contract](#)).

Changing of the guard (1)

In 2011 Lakshmi stepped down as TCS UK MD after 13 years in the role, to become global head of TCS' Telecom, Media & Entertainment, High Tech cluster (see [Changing of the guard at TCS UK](#)). Taking over as UK MD was Shankar Narayanan, who previously headed up Benelux Region for TCS. Shankar had also been heading Retail & Consumer Packaged Goods operations for TCS in the UK and Continental Europe and was already working closely with Lakshmi in his European business development role. Shankar had also worked with Lakshmi years earlier on the Somerfield deal.

By the end of Shankar's first year in post (FY12), TCS had grown to become a \$10b+ business, with BPO generating in excess of \$1b, representing 11% of worldwide revenues. TCS UK was by then 15% of worldwide revenues, a \$1.5b business, verging on £1b in local currency terms. By then TCS UK had become the 12th largest supplier of software and IT/BP services to the UK market.

Shankar continued Lakshmi's foray into the UK public sector, with the announcement in 2012 that TCS had displaced Capita to win the contract to modernise operations at the Disclosure and Barring Service (DBS) at the Home Office Criminal Records Bureau (see [TCS ousting Capita at CRB changes everything](#)). TCS took over operations in 2013 with a contract mooted to be worth £350m over the next eight years. DBS turned out to be one of TCS' very few high profile contracts that it did not subsequently go on to renew.

While TCS UK continued to grow strongly through a range of mid-size deals with clients across a broad range of industries, it was not until 2017 that TCS won its next major contract, transferring work from Lloyds Banking Group's Scottish Widows and Clerical Medical operations to Diligenta (see [Lloyds moves more jobs to TCS](#)). This deal marked the start of another purple patch for TCS/Diligenta, with megadeals at *Prudential*, displacing incumbent Capita (see [TCS on a roll in life & pensions](#)).

In January 2018, TCS announced a \$2b+ contract – its largest ever – with US-based insurer Transamerica, a subsidiary of Netherlands-headquartered insurer Aegon. Transamerica's 10m policies were to be migrated to the TCS BaNCS platform. Though not a UK win, we understand that it was TCS' success with the BaNCS platform in the UK L&P market that was instrumental in convincing Transamerica of TCS' capabilities.

Retail sector milestones

Shankar continued to build on his successes and experience in the retail sector with a number of deals, including the first UK implementation of TCS' proprietary Unified Commerce platform, Omnistore™, at retailer Kingfisher. The system is now live in over 300 B&Q stores. Also, in the retail space, TCS UK displaced incumbent IBM at global drinks conglomerate, Diageo. This was TCS' first large deal in the UK CPG market.

But perhaps the most significant retail sector win for TCS in recent times was with Marks & Spencer, already a TCS client, announced in January 2018. Worth a mooted \$1.5b, the new contract saw TCS become Marks & Spencer's principal technology partner to transition M&S to a digital operating model – the largest such retail sector contract for TCS globally.

SMEs banking on BaNCS in the cloud

In the UK, like in the rest of the world outside of India, TCS' traditional hunting ground is essentially the Fortune 2000 list. However, in its home market, TCS has been establishing propositions for SMEs, one of which has transitioned to the UK with notable success.

Back in 2008, TCS had launched a cloud-based version of its universal banking package, BaNCS. TCS had acquired the company that built the original version of BaNCS, Sydney-based Financial Network Services, in 2005. BaNCS, then COBOL-based, was completely rearchitected by TCS as a modern-day, cloud-based product, which has subsequently been implemented by a number of mid-size banks in India. TCS won its first BaNCS in the Cloud solution in the UK with the London Mutual Credit Union, completing the migration of their technology platforms in 2016. Currently, BaNCS in the Cloud is the only solution that TCS offers for SMEs in the UK.

Changing of the guard (2)

Shankar Narayanan moved on in September 2019 after eight years in post to head up TCS' Global Retail, CPG, Travel & Hospitality business. He handed over the reins of TCS UK & Ireland to Amit Kapur, a twenty-plus-year TCS veteran who, like Shankar, had cut his teeth in TCS Benelux which he had been running for the prior seven years (see [TCS continues its climb under new UK leadership](#)). Kapur's mission was straightforward: grow the business and stay relevant to all of TCS' stakeholders.

Part of Amit's mission is to firmly establish TCS as a contributor to 'UK plc'. This is reflected in the many initiatives he oversaw to boost STEM (Science, Technology Engineering, Maths) skills among students across the UK. These included TCS' Digital Explorers programme, which engaged more than 900 pupils from over 20 schools in Scotland in 2019 to learn and put into practice, hands-on skills vital for the latest technological innovations, including coding their own robot. More recently, in July 2020, TCS announced a partnership with Queen Mary University of London to offer a bursary for students looking to study computer science, providing financial assistance for up to 20 undergraduate students from low income families. TCS itself has over 500 trainees in the UK.

Under Amit's leadership, TCS also extended its relationship at Phoenix Group in November 2019 with a deal to transform Standard Life's pensions and savings operations, adding another 4.2m policies onto the BaNCS platform (see [TCS purple patch continues](#)). This took the total number of policies managed by Diligenta, on behalf of Phoenix to nearly 10m and significantly expanded TCS' presence in 'open book' policy processing.

Amit also oversaw TCS' continued drive into the UK SME banking market, with the announcement in September 2019 of a contract with Manchester-based Voyager Alliance Credit Union and its associate entity, Retail Credit Union, to migrate their operations to the BaNCS Cloud Banking platform (see [TCS developing Credit Union niche](#)). TCS currently has six UK credit unions running on the BaNCS in the Cloud platform.

COVID-19 and beyond

Even before the COVID-19 pandemic, growth in the global tech market was already slowing down. In the December 2019 quarter, TCS' worldwide yoy growth had declined to 6.4%, though TCS UK, by then under Amit's leadership, grew faster. But by the end of March, TCS worldwide growth had flatlined as the COVID-19 took grip, although UK revenues were still growing at 6%. Indeed, in February 2020 TCS UK won a stunning \$1.5b 10-year deal at long-time client Walgreens Boots Alliance to hand over transformation of its technology operations (see [here](#)).

TCS closed its FY20 financial year (to 31st March 2020) with headline revenues in excess of \$22b, of which the UK comprised almost 16%, some £2.76b, cementing its position as the second largest business unit in TCS. But by the end of June, TCS' revenues went into decline as the effect of the lockdown took full force (see [TCS reveals scale of COVID impact](#)).

Amit had already 'battened down the hatches' (as had the rest of TCS) in order to mitigate the impact of the pandemic as far as possible and to prepare the business for whatever shape the recovery was to take.

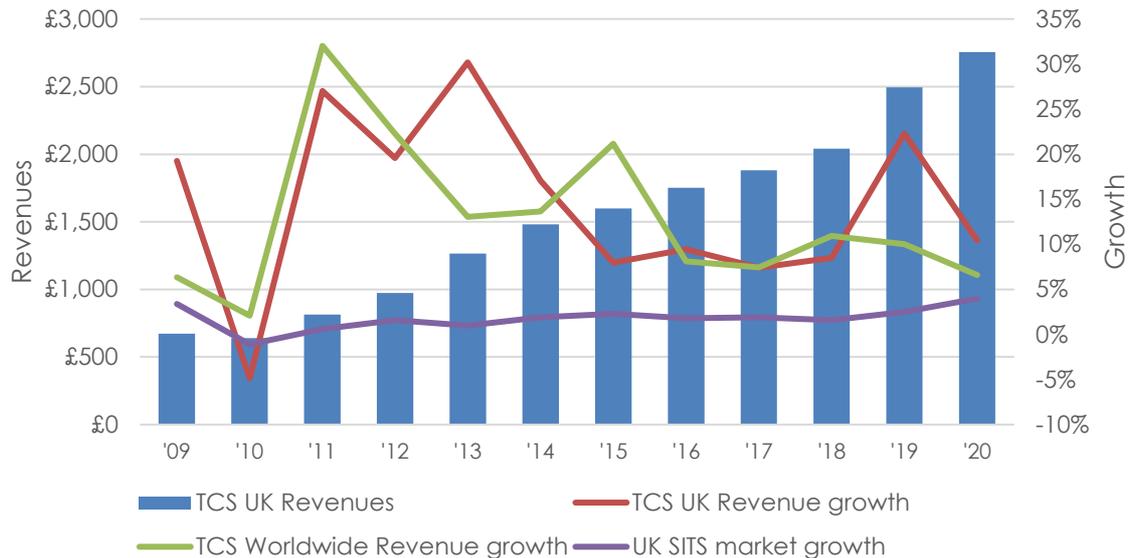
As a key part of this strategy, TCS accelerated its transition to what the company calls 'Secure Borderless Workspaces' (see [TCS looks beyond COVID-19](#)). SBWS expands on the concept of 'work from home', ensuring that the entire infrastructure from security to connectivity to quality procedures to staff touch points, all remain consistent. A successful transition to SBWS will be instrumental for TCS to achieve its aim that employees will be spending no more than 25% of their time in TCS offices by 2025.

The TCS secret sauce

With the exception of FY10, TCS UK has grown substantially faster than the UK SITS market (Figure 1), outstripping many peers. This was not by accident.

Figure 1: TCS revenue growth vs UK SITS market 2009-2020

Source: TechMarketView & company data



When you trace the history of TCS you can spot three 'inflection points' which fundamentally and structurally changed the business to enable growth:

1. Entry into the UK Life & Pensions market and the establishment of the Diligenta platform.
2. Transition from an application services pure-play to a full-line IT and business services supplier.
3. Transformation from a 'skills-centric' organisation to 'digital-solution-centric' business.

None of these changes happened overnight. They each took a huge investment in time, effort and cost. As a direct result, TCS has been able to grow faster than the market *organically*. Megadeals were of course important and remain so. But the bulk of TCS growth comes from its ability to leverage its client relationships, gaining a foothold with a strategic service line and then expanding its footprint by cross-selling other services.

There are a number of factors underpinning TCS' ability to do this:

- **Service quality.** TCS has maintained consistently high operating margins over the past 20 years, in recent times the highest among peers. It's very difficult to achieve a result like that without creating and maintaining an adaptable business that understands changes in customers' wants and needs, and then delivers. Or as I like to put it, 'The truth is in the numbers'!
- **Staff loyalty.** TCS has had the lowest attrition rate among peers for many years despite having a much larger workforce. It is reasonable to infer that management does a better job of looking after its people than the competitors, evidenced in the UK by TCS ranking among the 25 Best Big Companies to work for by the *Sunday Times*.
- **Seasoned, stable management.** Changes in TCS country management are seen more as an evolution not a revolution. Incumbents are usually expected to stay in post for several years, which helps cement relationships between the company and its customers, employees and partners. They are very much custodians of the TCS brand.

- **Contributor to 'UK plc'**. For example, TCS is an active supporter of UK STEM skills development through many initiatives to assist students across the UK to develop skills necessary for a career in tech. TCS also hires UK trainees.
- **Long-term view**. Although a publicly listed company since 2004, management doesn't let its strategy and tactics be driven by the quarterly numbers. Indeed, TCS has never published 'guidance' on future results, a practice that most peers have only recently eschewed in light of the COVID-19 pandemic.
- **Low-risk acquisitions**. Excluding outsourcing-related, TCS has made very few acquisitions, most below \$100m and only one in the UK, digital design agency W12 (see [TCS goes East with W12](#)).
- **Supportive shareholders**. Just over 72% of TCS' share capital is owned in effect by its parent. Tata Group gives country management a great deal of autonomy and support to run their businesses. This has allowed local management to make big, long-term bets (such as the Pearl Group deal) without being unduly concerned about the effect on the company's share price.

The path to ‘Number One’

TCS has come a long way both globally and here in the UK. From its roots as an application services supplier, TCS is now a global, top-tier full-line IT and business process services company, employing over 440,000 people around the world. TCS currently employs some 19,000 people in the UK.

In our recently published rankings report ([UK Software and IT Services Rankings 2020](#)), TCS was not only the second largest supplier of SITS to the UK market, but was also the fastest growing in the UK Top 5, topping 10% growth (Figure 2).

Figure 2: Top 20 suppliers of Software and IT/BP Services to the UK Market

Source: TechMarketView

2019 Rank	2018 Rank	Company	HQ	2019 (£m)	2018 (£m)	Change
1	1	Capita	UK	2,922	3,140	-7.0%
2	5	TCS	IN	2,757	2,496	10.5%
3	2	IBM	US	2,738	2,652	3.2%
4	4	Accenture	IE	2,683	2,519	6.5%
5	3	DXC Technology	US	2,218	2,523	-12.1%
6	6	Microsoft	US	1,947	1,745	11.6%
7	7	Capgemini	FR	1,548	1,487	4.1%
8	8	Atos	FR	1,465	1,464	0.0%
9	11	HCL	IN	1,315	1,136	15.7%
10	9	Fujitsu	JP	1,240	1,300	-4.6%
11	10	Oracle	US	1,213	1,251	-3.0%
12	14	Amazon Web Services	US	1,207	850	42.0%
13	13	Cognizant	US	1,026	956	7.3%
14	12	SAP	DE	997	968	3.0%
15	15	CGI	CA	871	819	6.3%
16	17	Infosys	IN	814	752	8.2%
17	16	Dell Technologies	US	805	790	2.0%
18	18	Wipro	IN	767	733	4.6%
19	19	BT Group	UK	723	731	-1.1%
20	20	Deloitte	US	720	661	8.9%

Should the *relativity* in growth rates be broadly maintained among the Top Five suppliers – and I don't think this is an entirely unreasonable assumption – there is a realistic prospect that TCS will become the largest supplier of SITS to the UK market, perhaps as early as next year.

But even if not, TCS UK has increased revenues more than 10-fold over the past 15 years, essentially organically. I struggle to think of any other top-tier global player that even comes close!

TCS UK selected milestones

Date	Milestone
1974	Wins first UK contract in partnership with Burroughs
1975	Establishes first office in the UK
1999	AS 'Lakshmi' Lakshminarayanan appointed MD UK&I. UK revenue £46m
2006	Announces entrée into UK Life & Pensions market through Pearl Group BPO Deal Diligenta established as centre for TCS UK L&P BPO
2008	Wins Sun Life Financial of Canada (UK) L&P BPO deal
2009	Wins first Local Government contract at Cadiff Council Wins deal at Child Maintenance and Enforcement Commission Wins share of major deal at BP
2010	Wins Phoenix Group L&P BPO deal Wins PADA NEST deal to run UK Government personal pension scheme
2011	Wins Friends Life L&P BPO deal Shankar Narayanan takes over as MD UK&I. UK revenue £815m
2012	Ousts Capita at Criminal Records Bureau UK revenues exceed £1b. Rises to 12th in the TMV UK Rankings
2014	Wins first deal for Diligenta with international scope at Friends Life Wins Diageo infrastructure services deal displacing IBM
2015	Extends relationship with Virgin Atlantic
2016	First UK implementation of BaNCS in the Cloud at London Mutual Credit Union
2017	Wins Lloyds Bank Scottish Widows/Clerical Medical L&P BPO deal Makes first half-billion pound quarter
2018	Wins Prudential L&P deal Wins transformation megadeal at Marks & Spencer
2019	Amit Kapur takes over as MD UK&I. UK revenue £2.5b Extends Phoenix Group relationship with Standard Life contract Further expands relationship with Virgin Atlantic
2020	Wins Walgreens Boots Alliance technology outsourcing deal TCS UK named in Sunday Times list of best big companies to work for UK revenues reach £2.76b. Rises to 2nd in the TMV UK Rankings

Terms and Conditions

CompanyViews is only available to TechMarketView Subscribers. By downloading and viewing CompanyViews, Subscribers agree to be bound by TechMarketView's full Terms & Conditions as supplied and available for viewing on www.TechmarketView.com.

All information is proprietary to TechMarketView and is protected by U.K. and foreign laws governing intellectual property. The information contained in the services is the copyright of TechMarketView and is subject to international copyright laws. Subscribers may use information contained herein for the research purposes only of the Subscriber or its employees. The Subscriber may not sell, resell or otherwise make the information available in any manner or on any media to any third party unless it has been granted prior written consent by TechMarketView. The Subscriber agrees to take all reasonable steps to restrict and control the use of and copying of TechMarketView's services. Subscribers may quote from CompanyViews provided that Source: TechMarketView is appended to each and every quote. Any such quotes should be limited to no more than a paragraph.

The responsibility for decisions taken on the basis of information given by TechMarketView will remain with the Subscriber. TechMarketView shall have no liability for any indirect special or consequential loss, damage, costs, expenses or other claims including (without limitation) those for loss of profit, loss of savings, loss of business or loss of interest which arise whether or not it has been notified of the possibility of such damages etc.