Tata Communications Payment Solutions Limited

October 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	500.00	CARE AA; Stable	Revised from CARE AA-; Positive
Long Term / Short Term Bank Facilities	64.00	CARE AA; Stable / CARE A1+	Revised from CARE AA-; Positive / CARE A1+
Short Term Bank Facilities	0.19	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the long-term rating and reaffirmation of the short-term rating assigned to the bank facilities of TATA Communications Payment Solutions Limited (TCPSL) reflects the improvement in the parent – TCL's credit profile. The ratings continue to principally derive strength from its parentage of TATA Communications Limited (TCL, rated 'CARE AAA; Stable'), and improving operational performance due to shift in functioning of white label ATM through franchise model thereby reducing the dependency of external fund based working capital limits and reduction in fixed costs resulting improvement in overall profitability. The rating strengths are, however, tempered by the capital-intensive nature of operations, exposure to adverse regulatory & technological changes and competition from banks & other payment solution service providers. Going forward, the ability of the company to successfully implement the franchise model of business and achieve growth in scale of operations with sustained profitability will be a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in turnover along with significant improvement in profitability

Negative factors

- Weakening of linkages with TCL or change in TCL's support stance towards TCPSL.
- Significant decline in the total operating income (TOI) and PBILDT margin

Analytical approach: Standalone, while factoring in financial and managerial linkages with TCL, integral to the operations of TCPSL.

Outlook: Stable

TCPSL is expected to sustain its strong credit profile owing strong linkages with TCL along with its 100% ownership.

Detailed description of the key rating drivers:

Key strengths

Support from a strong and resourceful promoter, i.e., TCL:

TCPSL is a wholly owned subsidiary of TCL, which is a part of the over US$ 100-billion TATA group, comprising over 100 operating companies in several business sectors, namely, communications and information technology, engineering, materials, services, steel, auto, financial services, energy, consumer products, and chemicals. The group has operations in more than 100 countries across six continents, and its companies export products and services to 85 countries. TCL is one of the largest and strategically important companies within the TATA group, being one of the oldest businesses.

The day-to-day operations of TCPSL are handled by the experienced team of TCL and receives strong managerial and operational support from its parent. TCPSL's board members are a part of the parent's key management while the key divisions are also managed by TCL. Furthermore, by virtue of being part of the TATA Group, the company enjoys financial flexibility.

Financial support extended by TCL:

TCL has infused equity amounting to ₹1,167.09 crore as on March 31, 2022, in TCPSL from its initial equity investment of ₹5 lakh in 2009 over and above security premium amounting to ₹454.91 crore. TCL infused ₹110 crore as equity in TCPSL during FY22 (refers to the period April 1 to March 31) and ₹50 crore during FY23 and is also expected to provide further need-based financial

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

support, going forward, to maintain the tangible net worth (TNW) of the company above ₹100 crore as stipulated by RBI regulatory norms. Additionally, TCL has provided an unconditional and irrevocable corporate guarantee for the bank facilities of the company ensuring timely servicing of the debt obligations. Demonstrated support from TCL reflects strong strategic importance and economic incentive of TCSPL for TCL.

Improving operational and financial performance:
Total Operating Income (TOI) of the company improved to Rs 185.36 crore with a growth of 13% for FY23, thus far below the pre-covid level, while the PBILDT improved to 8.85% from the level of 1.96% in FY22; due to reduction in fixed costs primarily on account of the company in the midst of transition to franchise driven functioning of WLA operations and reversal in provision of doubtful debts which were earlier provided. However, interest coverage ratio continues to be less than unity and CARE Ratings expects to improve with reduction in dependency on fund based working capital limits which is being replaced by interest free security deposits received from franchise owner leading to lower interest outflow. So far, the company has deployed White Label ATMs (WLAs) on the franchise model, which stood at about 7,611 as on June 30, 2023. Going forward, CARE Ratings Limited (CARE Ratings) will monitor the ability of the company to successfully implement the functioning of franchise model of business and achieve growth in scale of operations by permeating below Tier-3 cities with sustained profitability.

Key weaknesses

Capital intensive nature of operations:
The ATM business is capital intensive in nature and the breakeven takes around one to two years to realise depending on the average transactions per ATM. However, the company does not have any major capex plans for the year, as it has sufficient ATM machines available in stock on account of closure of Brown Label ATM (BLA) and Ministry of Finance (MOF) contracts, which it plans to redeploy for new rollouts. Furthermore, the company has also deployed ATMs on franchise model which reduces fixed costs for the company.

Exposure to adverse regulatory and technological changes:
WLA operations are highly regulated by policies set by the RBI and any adverse change in the same may affect the business of the company. The revenue profile of the company is dependent upon the average number of transactions per ATM as well as the revenue per transaction from ATM, and the same is fixed by RBI leading to lower bargaining power. Any adverse movement in the revenue per transaction can have significant impact on the profitability of the company and would be a key rating monitorable. RBI has set stringent regulations for setting up of white label ATMs with regards to the need for setting up of ATMs in the rural areas of the country and mandates minimum net worth requirement of ₹100 crore for operators of WLAs. The industry is also exposed to the technological changes or features that need to be incorporated in ATMs. Furthermore, many payment service providers have introduced technologies, which allow the customer to carry out transaction without a card, through their smart phones. The rapid change in technology is likely to impact the players of ATM management services. At present, TCPSL mainly caters to Tier-3 and below cities, which are less prone to rapid technological changes.

Competition from banks and payment solutions service providers albeit consolidation of the market:
TCPSL faces competition from ATMs of other scheduled banks, however, the same is negated to a large extent with the WLA operators operating primarily in Tier-3 cities and below. However, the company also faces competition on account of pickup of cash withdrawals through Aadhar-enabled Payment Systems (AePS), and the same poses a threat to ATM business. Since advent of COVID-19, AePS transactions have doubled, replacing the dependence on teller machines. The AePS comes in handy for such residents in rural areas, especially for those people living in areas without banks or ATMs.

Liquidity: Adequate
TCPSL utilises its working capital facilities mainly to load cash in the ATMs. At any point in time, the company's working capital borrowings are secured by ATM cash balance, cash in transit and National Payments Corporation of India (NPCI) receivables. The other day-to-day working capital requirements remain low during the year. The liquidity profile of TCPSL remains adequate with free cash and bank balances of ₹310.67 crore against a total debt of ₹196.56 crore (including ₹76.56 crore financial lease liabilities and ₹120.00 crore working capital borrowings) and no external long-term debt as on March 31, 2023. The average utilisation of the fund-based facilities stood at around 23% for the 12-month period ended June 30, 2023, leaving additional liquidity buffer. Furthermore, the company also enjoys significant financial flexibility by virtue of being a part of the TATA group.

Assumptions/Covenants
Not Applicable

Environment, social, and governance (ESG) risks
Not Applicable

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Service Sector Companies
Short Term Instruments
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Other Telecom Services

Incorporated on February 28, 2008, TCPSL is a wholly owned subsidiary of TCL. The company is one the major players in pure white label ATM (WLA) in India and in terms of number of ATMs, which stood at 7,611 as per the National Payments Corporation of India (NCPI) data, as on June 30, 2023. TCPSL has obtained authorisation from the RBI to set-up, own and operate WLAs under the Payment and Settlement System Act, 2007, and operates these ATMs under the brand name 'Indicash'

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	164.60	185.36	NA
PBILDT	3.23	16.40	NA
PAT	-81.71	-64.04	NA
Overall gearing (times)	3.42	1.89	NA
Interest coverage (times)	0.12	0.59	NA

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available' NA: Not Available

Status of non-cooperation with previous CRA: Not Available

Any other information: Not Available

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	200.00	CARE AA; Stable
Fund-based - LT-Bank Overdraft		-	-	-	300.00	CARE AA; Stable
Fund-based - LT/ ST-Bank Overdraft		-	-	-	4.00	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	60.00	CARE AA; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	0.19	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-Bank Overdraft	LT/ST*	4.00	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Positive / CARE A1+ (25-Jan-23) 2)CARE AA- (CE); Positive / CARE A1+ (CE) (29-Jul-22)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (25-Nov-21)	1)CARE A1+ (CE) (08-Jan-21)
2	Non-fund-based - ST-BG/LC	ST	0.19	CARE A1+	-	1)CARE A1+ (25-Jan-23) 2)CARE A1+ (CE) (29-Jul-22)	1)CARE A1+ (CE) (25-Nov-21)	1)CARE A1+ (CE) (08-Jan-21)
3	Fund-based - LT-Bank Overdraft	LT	200.00	CARE AA; Stable	-	1)CARE AA-; Positive (25-Jan-23)	1)CARE AA- (CE); Stable (25-Nov-21)	1)CARE AA- (CE); Stable (08-Jan-21)

						2)CARE AA- (CE); Positive (29-Jul-22)		
4	Fund-based - LT-Bank Overdraft	LT	300.00	CARE AA; Stable	-	1)CARE AA-; Positive (25-Jan-23) 2)CARE AA+ (CE); Positive (29-Jul-22)	1)CARE AA+ (CE); Stable (25-Nov-21)	1)CARE AA+ (CE); Stable (08-Jan-21)
5	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	-	1)Withdrawn (08-Jan-21)
6	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	-	-	-	-	1)Withdrawn (25-Nov-21)	1)Provisional CARE AA- (CE); Stable / CARE A1+ (CE) (08-Jan-21)
7	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	-	1)Withdrawn (08-Jan-21)
8	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	-	1)Withdrawn (08-Jan-21)
9	Fund-based/Non-fund-based-LT/ST	LT/ST*	60.00	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Positive / CARE A1+ (25-Jan-23) 2)CARE AA- (CE); Positive / CARE A1+ (CE) (29-Jul-22)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (25-Nov-21)	1)CARE AA- (CE); Stable (08-Jan-21)
10	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)Withdrawn (25-Jan-23) 2)CARE A- (29-Jul-22)	1)CARE A- (25-Nov-21)	1)CARE A- (08-Jan-21)
11	Un Supported Rating-Un Supported Rating (Short Term)	ST	-	-	-	1)Withdrawn (25-Jan-23) 2)CARE A2+ (29-Jul-22)	1)CARE A2+ (25-Nov-21)	1)CARE A2+ (08-Jan-21)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	Not Applicable
B. Non-financial covenants	
I. Minimum Shareholding	TCL to continue to retain majority ownership and control in the company and retain at least 51% shareholding
II. Management Control	TCL to retain management control directly or indirectly
III. Insurance Cover	Comprehensive insurance cover against all risks for loss of cash in ATMs

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT/ ST-Bank Overdraft	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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