

Tata Communications Transformation Services Limited

October 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	230.00	CARE AA; Stable / CARE A1+	Revised from CARE AA-; Positive / CARE A1+
Short Term Bank Facilities	65.00	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 Transformation Services Limited (TCTSL) 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'), integrated business model of service operations, global presence, a highly reputed customer base and service contracts in place providing revenue visibility. The rating strengths are, however, tempered by the company's exposure to foreign exchange fluctuation risk partially mitigated through hedging and revenue concentration with few customers. Furthermore, during FY23 (refers to the period April 1 to March 31), the company total operating income remained flat, while the profit before depreciation interest and tax (PBILDT) turned positive, primarily on account of decreased allowance created for doubtful receivables and renewing the existing contracts with higher prices. Going forward, ability of the company to grow scale of operations while improving operating margins on a sustained basis will be a key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in scale of operations along with operating margins above 25%

Negative factors

- Weakening of linkages with TCL or change in TCL's support stance towards TCTSL.

Analytical approach: Consolidated, wherein, the financials of all its subsidiaries have been considered on account of common management, shared brand name and similar line of business along with financial linkages. Furthermore, the ratings also factor in linkages with TCL, which are integral to the operations of TCTSL. The list of entities whose financials have been consolidated is mentioned in Annexure-6.

Outlook: Stable

TCTSL 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:

TCTSL 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 TCTSL are handled by the experienced team of TCL and receives strong managerial and operational support from its parent. TCTSL'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.

Integrated business model of service operations:

TCTSL operates along the service chain providing end-to-end network management for cable and wireless network servicing requirements of customers and also has a niche in technology migration. The services provided by the company include network plan, design, engineering and rollout services, submarine network and field operations and network security services. The

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

company's global presence and wide-spread umbrella of service offerings provides ample room to improve the scope of business in the coming years.

Service contracts providing revenue visibility and highly reputed customer base albeit concentrated revenue:

TCTSL entered into fibre operations and maintenance (O&M) service agreement with customers for a long tenure and has master service agreements with reputed players like AT&T Inc., Telus Communications Inc., etc., which are renewed on a yearly basis. The company further has long-term contracts and long-standing relations with leading telecommunication companies, which provides revenue visibility for the company. However, during FY23, the revenue of the company remained concentrated, with the top four customers contributing to more than 79% (P.Y.:72%) of the TOI.

Presence across the globe:

TCTSL has offices in Europe, North America and the Middle East with two world class delivery centres in Pune and Chennai. These facilities operate completely independent from its parent affiliate, preserving full confidentiality in managing all customers' business processes. The revenue contribution from India was around 72% in FY23 (PY: 69%) while the remaining is majorly contributed by the United Kingdom, Australia, Canada and Luxembourg.

Key weaknesses

Moderate financial performance:

The TOI of the company improved marginally by 1% to Rs 1425.47 crore in FY23, while PBILDT improved substantially to positive Rs 22.18 crore from negative Rs 53.10 crore, primarily on account of decreased allowance created for doubtful receivables, and renewing the existing contracts with higher prices which also comes with higher network management and sub-contracting charges as compared to previous year.

Exposure to foreign exchange risk partly mitigated through hedging:

The operations of the company are spread across various geographies involving risks related to foreign exchange fluctuations and translations. The company uses derivative financial instruments, such as forward contracts, to hedge its foreign currency exposure, which is also partly mitigated through natural hedging. The company manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12 months' period for hedges of forecasted sales and purchases, generally for a period of 1 to 3 months. TCTSL booked a net forex loss of ₹0.65 crore in FY23 (PY: gain of ₹2.03 crore)

Liquidity: Adequate

The company has an adequate liquidity profile with free cash and bank balances of ₹107.22 crore against no external long-term borrowings as on March 31, 2023. Furthermore, the company also enjoys significant financial flexibility by virtue of being wholly owned subsidiary of TCL.

Assumptions/Covenants

Not Applicable

Environment, social, and governance (ESG) risks

Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

[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

TCTSL, formerly incorporated as VSNL global services (subsidiary of VSNL; in which TATA acquired a controlling stake in 2002) subsequently renamed, is a wholly owned subsidiary of TCL. The company is primarily engaged in business transformation, managed network operations, network outsourcing and consultancy services. The company provides end-to-end network management for cable and wireless network servicing requirement of the customers by providing services like optical cable fibre (OFC) servicing, network engineering and design, implementation, and other support services for major telecom players. TCTSL is headquartered in Mumbai, India, with global offices in Europe, North America and Middle East.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1413.75	1425.47	NA
PBILDT	-53.10	22.82	NA
PAT	-138.72	-12.58	NA
Overall gearing (times)	3.98	3.07	NA
Interest coverage (times)	-2.94	1.53	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 Applicable

Any other information: Not Applicable

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 - ST-Bank Overdraft		-	-	-	65.00	CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	145.00	CARE AA; Stable / CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	50.00	CARE AA; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	35.00	CARE AA; Stable / 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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	145.00	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) (23-Nov-21)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (17-Feb-21) 2)CARE AA- (CE); Stable / CARE A1+ (CE) (09-Oct-20)
2	Fund-based - ST-Bank Overdraft	ST	65.00	CARE A1+	-	1)CARE A1+ (25-Jan-23) 2)CARE A1+ (CE) (29-Jul-22)	1)CARE A1+ (CE) (23-Nov-21)	1)CARE A1+ (CE) (17-Feb-21) 2)CARE A1+ (CE) (09-Oct-20)
3	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	-	1)Withdrawn (25-Jan-23) 2)CARE A+ / CARE A1 (29-Jul-22)	1)CARE A+ / CARE A1 (23-Nov-21)	1)CARE A+ / CARE A1 (17-Feb-21) 2)CARE A+ / CARE A1 (09-Oct-20)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	35.00	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) (23-Nov-21)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (17-Feb-21)
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	50.00	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) (23-Nov-21)	1)Provisional CARE AA- (CE); Stable / CARE A1+ (CE) (17-Feb-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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-6: List of entities forming part of TCTSL's consolidated financials (as on March 31, 2023)

Sr. No.	Name of the subsidiaries	% shareholding
1	TATA Communication Transformation Services Pte Limited (Singapore)	100%
2	TATA Communications Transformations Services (Hungary) Kft	100%
3	TATA Communications Transformations Services (US) Inc	100%
4	TATA Communications Transformations Services (South Africa) PTY	100%
5	TATA Senegal Limited SUARL	100%

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About us:

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