

Tata Communications Payment Solutions Limited

November 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	125.00	CARE AA (RWN)	Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating assigned to the long-term bank facilities of Tata Communications Payment Solutions Limited (TCPSL) has been placed on rating watch with negative implications consequent to the share purchase agreement entered on November 13, 2024 by Tata Communication Limited (TCL, rated CARE AAA; Stable/CARE A1+) for divestment of TCL's entire stake in TCPSL to Transaction Solutions International (India) Private Limited (TSI-India; rated CARE BBB+; Stable/ CARE A3+). TSI-India is a wholly owned subsidiary of Findi Limited, an Australian Digital payments and financial services provider. Rating watch with Negative implications is assigned primarily due to anticipated change in promoter having a moderate credit profile. The transaction is subject to certain regulatory and customary conditions standard to a transaction of this nature. CARE Ratings Limited (CARE Ratings) shall take a view on the ratings once the transaction is completed and/or more clarity is available.

The rating continues to principally derive strength from its parentage of TCL and expected improvement in operational performance due to shift in functioning of white label automated teller machines (ATM) through franchise model reducing the dependency of external fund-based working capital limits and reduction in fixed costs resulting improvement in overall profitability. However, rating strengths are tempered by capital-intensive nature of operations, exposure to adverse regulatory and technological changes, and competition from banks and other payment solution service providers. Going forward, the company's ability 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.
- Decline in the total operating income (TOI) to less than ₹100 crore with significant decline in PBILDT margin on a sustained basis.

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

Outlook: Not applicable

Detailed description of key rating drivers

Key strengths

Support from a strong and resourceful promoter, TCL

TCPSL is a wholly owned subsidiary of TCL, which is part of the over US\$ 100 billion TATA group, comprising over 100 operating companies in several business sectors, including, communications and information technology, engineering, materials, services, steel, auto, financial services, energy, consumer products, and chemicals. The group has operations in over 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. TCPSL's day-to-day operations are handled by TCL's experienced team and receives strong managerial and operational support from its parent. TCPSL's board members are part of the parent's key management, while key divisions are also managed by TCL. As part of the TATA Group, the company enjoys financial flexibility.

Financial support extended by TCL

TCL has infused equity amounting to ₹1,237 crore as on March 31, 2024, in TCPSL from its initial equity investment of ₹5 lakh in 2009, above the security premium amounting to ₹454.91 crore. TCL infused ₹50 crore as equity in TCPSL in FY23 and ₹20 crore in FY24 and is expected to provide further need-based financial support, going forward, to maintain the company's tangible net

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

worth (TNW) above ₹100 crore as stipulated by RBI regulatory norms. Demonstrated support from TCL reflects strong strategic importance and economic incentive of TCSPL.

Expected improvement in operational performance due to shift to franchise led business model

The company is shifting from Company Owned Company Operated (COCO) White Label Automated Teller Machines (WLAs) to Company Owned Franchise Operated (COFO) WLAs. Due to such transition, the number of WLAs operated reduced from 8,134 ATMs in FY23 to 5,161 in FY24 which led to a decline in TOI by 10.43% y-o-y, decreasing from ₹185.36 crore in FY23 to ₹166.02 crore in FY24. Consequent to dip in revenue, PBILDT margins deteriorated from 8.85% in FY23 to 0.47% in FY24. However, as articulated by the management, the number of WLAs are expected to increase up to 8,000 by FY26 by deployment of ATMs under franchise model, expected overall improvement in revenue and profitability. The shift is expected to enhance the company's operational efficiency by transferring operational costs to franchisees, thereby improving profitability. Going forward, CARE Ratings will monitor the company's ability to successfully implement functioning of franchise model of business and achieve growth in scale of operations by permeating below Tier-3 cities with sustained profitability.

Significant reduction in debt

TCPSL utilised its working capital facilities mainly to load cash in ATMs. Post change in the operating model, the dependence on working capital limits has been replaced by interest-free deposits received from franchise owners leading to lower interest outflow. Hence, the company reduced the working capital limits. As a result, the company's overall gearing improved to 0.16x as on March 31, 2024, from 1.89x as on March 31, 2023.

Key weaknesses**Capital intensive nature of operations**

The ATM business is capital intensive and the breakeven takes ~1-2 years to realise depending on average transactions per ATM. However, the company does not have major capex plans for the year, as it has sufficient ATM machines available in stock for redeployment as COFO WLAs, which it plans to rollout gradually over next two years. Deployment of ATMs on franchise model also 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 adverse change in the same may affect the business of the company. The company's revenue profile depends on average number of transactions per ATM and revenue per transaction from ATM, which is fixed by RBI leading to lower bargaining power. Adverse movement in the revenue per transaction can have significant impact on the company's profitability and would be a key rating monitorable. RBI has set stringent regulations for setting up of white label ATMs, regarding the need for setting up ATMs in 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. Many payment service providers have introduced technologies, which allow the customer to carry out transaction without a card, through their smart phones. Rapid change in technology is likely to impact ATM management service providers. 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 market

TCPSL faces competition from ATMs of other scheduled banks, which is negated to a large extent with 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), which poses a threat to ATM business. Since advent of COVID-19, AePS transactions have doubled, replacing the dependence on teller machines. AePS comes in handy for such residents in rural areas, especially for those people living in areas without banks or ATMs.

Liquidity: Adequate

The liquidity position of the company is adequate with free cash and bank balances of ₹255.79 crore as on March 31, 2024, against NIL term debt as of March 31, 2024. Furthermore, the average of maximum utilisation of fund-based facilities stood low at 3% for 12-months period ended June 2024, as dependence on working capital limits to fund ATM cash has been shifted to interest-free deposits received from franchise owners. This provides an additional liquidity buffer in the form of unutilised limits for other day-to-day working capital requirements, which remains low during the year. The company also enjoys significant financial flexibility as part of the TATA group.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria[Definition of Default](#)[Factoring Linkages Parent Sub JV Group](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Rating Watch](#)[Financial Ratios – Non financial Sector](#)[Service Sector Companies](#)[Infrastructure Sector Ratings](#)**About the company and industry****Industry classification**

Macroeconomic 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 5,161 per the National Payments Corporation of India (NCPI) data, as on March 31, 2024. TCPSL 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, 2023 (A)	March 31, 2024 (A)
Total operating income	185.36	166.02
PBILDT	16.40	0.78
PAT	-64.04	-20.24
Overall gearing (times)	1.89	0.16
Interest coverage (times)	1.12	0.27

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Available**Any other information:** Not Available**Rating history for last three years:** Annexure-2**Detailed explanation of covenants of rated instrument / facility:** Annexure-3**Complexity level of 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 and Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	125.00	CARE AA (RWN)

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT/ST-Bank Overdraft	LT/ST	-	-	1)Withdrawn (12-Sep-24)	1)CARE AA; Stable / CARE A1+ (05-Oct-23)	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)
2	Non-fund-based - ST-BG/LC	ST	-	-	1)Withdrawn (12-Sep-24)	1)CARE A1+ (05-Oct-23)	1)CARE A1+ (25-Jan-23) 2)CARE A1+ (CE) (29-Jul-22)	1)CARE A1+ (CE) (25-Nov-21)
3	Fund-based - LT-Bank Overdraft	LT	125.00	CARE AA (RWN)	1)CARE AA; Stable (12-Sep-24)	1)CARE AA; Stable (05-Oct-23)	1)CARE AA-; Positive (25-Jan-23) 2)CARE AA-(CE); Positive (29-Jul-22)	1)CARE AA-(CE); Stable (25-Nov-21)
4	Fund-based - LT-Bank Overdraft	LT	-	-	1)Withdrawn (12-Sep-24)	1)CARE AA; Stable (05-Oct-23)	1)CARE AA-; Positive (25-Jan-23) 2)CARE AA+ (CE); Positive (29-Jul-22)	1)CARE AA+ (CE); Stable (25-Nov-21)
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	-	-	-	-	-	1)Withdrawn (25-Nov-21)
6	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	1)Withdrawn (12-Sep-24)	1)CARE AA; Stable / CARE A1+ (05-Oct-23)	1)CARE AA-; Positive / CARE A1+ (25-Jan-23) 2)CARE AA-(CE); Positive /	1)CARE AA-(CE); Stable / CARE A1+ (CE) (25-Nov-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
							CARE A1+ (CE) (29-Jul-22)	
7	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)
8	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)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

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

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About us:

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