

Tata Communications Transformation Services Limited

December 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	355.00	CARE AA; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	65.00	CARE A1+	Reaffirmed
Commercial Paper	150.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the bank facilities and assigning of the initial rating to the proposed issuance of commercial paper instruments of Tata Communications Transformation Services Limited (TCTSL), primarily factors strong parentage of Tata Communications Limited (TCL, rated 'CARE AAA; Stable').

Ratings derive strength from TCTSL's integrated business model of service operations, global presence, highly reputed customer base, and presence of service contracts that ensures revenue visibility. This apart rating factors TCL's commitment in extending need-based financial support as when required.

The aforementioned rating strengths are, however, tempered by a compounded annual growth rate (CAGR) of 3% in operating income over the past 3 years, ending FY24. Operating profit margins have been thin during this period and turned negative in FY24 due to one-time staff cost optimization and allowances for doubtful debtors related to a contract termination with a customer of weak credit profile. Additionally, the company is exposed to inherent foreign exchange fluctuation risks. Going forward, the company's ability to scale operations while consistently improving operating profit margins will be a key rating factor.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in turnover 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. Entities considered for consolidating financials are listed in **Annexure-6**.

Outlook: Stable

The stable outlook reflects its strong credit profile owing to its strong parentage, operational and management linkages with TCL.

Detailed description of 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 TCTSL 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.

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

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 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 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 Seacom Ltd., TCTS Australia 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 FY24, the revenue of the company remained concentrated, with the top four customers contributing to more than 58% 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 65% in FY24 (PY: 72%) while the remaining is majorly contributed by United States of America, United Kingdom and Australia.

Key weaknesses**Moderate operating income and profitability**

The TOI of the company grew by 9% from ₹1425 crores in FY23 to ₹1553 crores in FY24, while PBILDT turned negative primarily due to allowances for doubtful receivables attributed to a customer having weak credit profile of ₹ 14 crores and one time staff optimization costs. Further as per H1FY25, the company reported revenue of Rs. 597 crores with Earnings before interest, taxes, depreciation, and amortization (EBIDTA) margin of 7.98%, Positive Profit before tax (PBT) and Profit after tax (PAT) margin of 2.21% and 1.96% respectively.

Exposure to foreign exchange risk

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.

Liquidity: Adequate

Adequate liquidity is characterized by presence of free cash and bank balances of ₹52.97 crore against no external long-term borrowings as on September 30, 2024. Additionally, the average fund based working capital utilization for the past 12 months ending July 2024 stands at 46%. This apart, the company proposes to have a CP limit of Rs 150 crore to optimize the financing cost of overall working capital borrowings. Based on the articulation of the management, the company will always maintain unutilized bank limits equivalent to that of the outstanding commercial paper at all times. 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](#)

[Rating Outlook and Credit Watch](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial ratios: non-financial sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Service Sector Companies](#)

[Policy on Short Term Instruments](#)

[Infrastructure sector ratings](#)

About the company and industry

Industry classification

Macroeconomic 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)- Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1425.47	1,553.70	596.85
PBILDT	22.82	16.84	48.47
PAT	-12.58	-67.95	11.88
Overall gearing (times)	3.07	-43.35	59.36
Interest coverage (times)	1.53	0.79	3.24

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

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

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
Commercial Paper- Commercial Paper (Standalone)	-	-	-	0-364	150.00*	CARE A1+
Fund-based - ST- Bank Overdraft	-	-	-	-	65.00	CARE A1+
LT/ST Fund- based/Non-fund- based- CC/WCDL/OD/LC/BG	-	-	-	-	270.00	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+

*Proposed instrument and not yet placed.

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	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	270.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (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) (23-Nov-21)
2	Fund-based - ST-Bank Overdraft	ST	65.00	CARE A1+	1)CARE A1+ (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) (23-Nov-21)
3	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	-	-	-	-	1)Withdrawn (25-Jan-23) 2)CARE A+ / CARE A1	1)CARE A+ / CARE A1 (23-Nov-21)

							(29-Jul-22)	
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	35.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (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) (23-Nov-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; Stable / CARE A1+ (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) (23-Nov-21)
6	Commercial Paper-Commercial Paper (Standalone)	ST	150.00	CARE A1+				

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	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	LT/ST Fund-based/non-fund-based- CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	TATA Communications Transformations Services Pte Limited	Full	Subsidiary
2	TATA Communications Transformations Services (Hungary) Kft	Full	Subsidiary
3	TATA Communications Transformations Services (US) Inc	Full	Subsidiary
4	TATA Communications Transformations Services (South Africa) PTY	Full	Subsidiary
5	TATA Senegal Limited SUARL	Full	Subsidiary

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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