

TATA Communications Transformation Services Limited

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term bank facilities	230.00	CARE AA-; Positive / CARE A1+	Revised from CARE AA- (CE)^; Positive / CARE A1+ (CE)^
Short-term bank facilities	65.00	CARE A1+	Revised from CARE A1+ (CE)^

Details of instruments/facilities in Annexure-1.

^backed by credit enhancement in the form of Letter of Comfort (LoC) from TATA Communications Limited (TCL, rated 'CARE AA+; Positive/ CARE A1+').

Unsupported rating	Withdrawn [Withdrawn]
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Note: Unsupported rating does not factor in the explicit credit enhancement.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of TATA Communications Transformation Services Limited (TCTSL) follows the Reserve Bank of India's (RBI)'s guidance note on Bank Loan - Credit Enhanced Ratings dated April 22, 2022, and subsequent FAQs dated July 26, 2022 w.r.t credit enhanced ratings based on Letter of Comfort (LoC). Accordingly, CARE Ratings Limited (CARE Ratings) has changed the analytical approach for TCTSL from credit enhanced rating to its consolidated credit profile along with suitably factoring linkages with TCL. The ratings assigned to the bank facilities of TCTSL derive comfort from the strong parentage of TCL, 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 FY22 (refers to the period April 1 to March 31), the company incurred net losses of ₹138.72 crore on account of increased network management and subcontracting costs, allowances for doubtful receivables and significant deferred tax. The performance of the company though remained loss making, improved significantly in H1FY23 on account of exit from an onerous contract and stabilisation of operations. Based on articulation from the management, CARE Ratings understands that the company is in the process of streamlining its processes and expunged non-performing contracts. Going forward, the ability of TCTSL to maintain profitability margins while expanding the customer base and order book to ramp-up its overall scale of operations will be key monitorable.

Rating sensitivities (TCL)

Positive factors – Factors that could lead to positive rating action/ upgrade:

- Sustained growth in turnover along with operating margins above 25%.
- Improvement in the credit rating of TCL.

Negative factors – Factors that could lead to negative rating action/ downgrade:

- Weakening of linkages with TCL or change in TCL's support stance towards TCTSL.
- Decline in total operating income (TOI) and PBILDT margin leading to strain in liquidity.

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.

In compliance with the RBI's guidance note on Bank Loan – Credit Enhanced Ratings dated April 22, 2022, and subsequent FAQs dated July 26, 2022 w.r.t. credit enhancement ratings derived from LoC, CARE Ratings has not assigned a credit enhanced rating to the bank facilities of TCTSL and has instead assessed the company on the basis of its consolidated credit profile along with suitably factoring its strong linkages with TCL.

Outlook: Positive

TCTSL is an integral part of TCL, thereby having strong operational and financial linkages, hence any improvement in the credit profile of TCL will have a direct impact on the company. In view of the above, the outlook for the long-term rating of the company is assigned "Positive" on account of the improvement in the capital structure of TCL and sustenance of the PBILDT

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

margin at around 25% level. CARE Ratings expects growth in the revenues of TCL amid the rising demand for data following a favourable industry outlook. The outlook may be revised to 'Stable' if TCL is unable to leverage the improving demand scenario to increase its TOI with sustenance in the PBILDT margin above 25% or pursues aggressive debt-funded capex, deteriorating its net debt/PBILDT ratio beyond 2.0x.

Key rating 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. 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 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 FY22, the revenue of the company remained concentrated, with the top four customers contributing to more than 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 65% in FY21 (PY: 70%) while the remaining is majorly contributed by the United Kingdom, Australia, Canada and Luxembourg.

Key rating weaknesses

Subdued financial performance: The TOI of the company remained subdued during FY22 and the company continued to make losses at PBILDT level of ₹53.10 crore on account of increased allowance created for doubtful receivables, and higher network management and sub-contracting charges as compared with FY21. However, TCTSL's performance improved during H1FY23 on account of exit from an onerous contract and stabilisation of operations. On account of this, the company turned PBILDT positive and made profit of around ₹5 crore in H1FY23.

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 gain of ₹2.03 crore in FY22 (PY: loss of ₹2.95 crore).

Liquidity: Adequate

The company has an adequate liquidity profile with free cash and bank balances of ₹110.07 crore against no external long-term borrowings except inter-corporate loans of ₹79.46 crore availed from TCL as on March 31, 2022. Furthermore, the company also enjoys significant financial flexibility by virtue of being a part of the TATA group.

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](#)
[Service Sector Companies](#)
[Policy on Withdrawal of Ratings](#)

About the company

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, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,411.36	1,413.75	654.55
PBILDT	-6.65	-53.10	5.28
PAT	-46.66	-138.72	-8.72
Overall gearing (times)	0.80	3.98	NA
Interest coverage (times)	NM	NM	1.02

A: Audited; UA: Unaudited; NM: Not meaningful.

Note: The financials have been classified as per CARE Ratings' internal standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated for this company: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	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-; Positive / CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	50.00	CARE AA-; Positive / CARE A1+
Non-fund-based - LT/ST-BG/LC	-	-	-	35.00	CARE AA-; Positive / CARE A1+
Unsupported rating-Unsupported rating (LT/ST)	-	-	-	0.00	Withdrawn

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	145.00	CARE AA-; Positive / CARE A1+	1)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+(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	Unsupported rating-Unsupported rating (LT/ST)	LT/ST*	-	-	1)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-; Positive / CARE A1+	1)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-; Positive / CARE A1+	1)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)	-

* LT/ST: Long term/short term

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

Name of the Instrument	Detailed Explanation
A. 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 for this company

Sr. No.	Name of 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
4.	Unsupported rating-Unsupported rating (LT/ST)	Simple

Annexure-5: Bank lender details for this company

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

Annexure 6: List of entities forming part of TCTSL's consolidated financials (as on March 31, 2022)

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

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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