TATA Communications Payment Solutions Limited

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	300.00	CARE AA-; Positive	Revised from CARE AA+ (CE)^; Positive
Long-term bank facilities	200.00	CARE AA-; Positive	Revised from CARE AA- (CE)@; Positive
Long-term / Short-term bank facilities	64.00	CARE AA-; Positive / CARE A1+	Revised from CARE AA- (CE)@; Positive / CARE A1+ (CE)@
Short-term bank facilities	0.19	CARE A1+	Revised from CARE A1+ (CE)@

Details of instruments/facilities in Annexure-1.
^backed by credit enhancement in the form of an unconditional and irrevocable corporate guarantee from TATA Communications Limited (TCL, rated 'CARE AA+; Positive/ CARE A1+').
@backed by credit enhancement in the form of Letter of Comfort (LoC) from TCL.

Unsupported rating	Withdrawn [Withdrawn]

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of TATA Communications Payment Solutions Limited (TCPSL) 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) and working capital limits. Accordingly, CARE Ratings Limited (CARE Ratings) has changed the analytical approach for TCPSL from credit enhanced rating to its standalone credit profile along with suitably factoring linkages with TCL. The ratings assigned to the bank facilities of TCPSL derive strengths from the strong parentage of TCL, improving operational performance during H1FY23 and consolidation of the White Label ATM operator (WLAO) industry. The rating strengths are, however, tempered by the company's loss-making performance owing modest profitability, capital intensive nature of operations, exposure to adverse regulatory and technological changes and competition from banks and other payment solution service providers. The company is currently focussing on scaling its franchise model, which is expected to lower fixed costs and improve profitability. Going forward, the ability of the company to successfully turnaround its business and achieve 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.
- Improvement in the credit profile of TCL.

Negative factors

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

Analytical approach: Standalone, while factoring in financial and managerial linkages with TCL, integral to the operations of TCPSL.
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 derived from LoC and guarantees for working capital facilities, CARE Ratings has not assigned a credit enhanced rating to the bank facilities of TCPSL and has instead assessed the company on the basis of its standalone credit profile along with suitably factoring its strong linkages with TCL.

Outlook: Positive
TCPSL is an integral part of TCL, thereby having strong operational and financial linkages, hence, any improvement in the credit profile of the TCL will have a direct impact on TCPSL. 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 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.

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

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.

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 ₹32 crore during H1FY23 and is also expected to provide further need-based financial 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 performance albeit subdued financial performance for H1FY23: While the TOI of the company grew by around 15% during H1FY23 as compared with H1FY22, the profitability declined, and the company made losses at PBILDT level with a PBILDT margin of negative 4.09% as compared with 10.11% in H1FY22. The same has been on account of one-time expenses to the tune of ₹3 crore relating to ESIC demands and one-time staff optimisation costs. The company has deployed White Label ATMs (WLAs) on the franchise model, which stood at about 2,000 as on October 31, 2022. CARE Ratings expects this to increase the profitability going forward on account of low operational costs involved.

Key rating 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 ₹417.41 crore against a total debt of ₹374.24 crore (including ₹105.16 crore financial lease liabilities and ₹269.08 crore working capital borrowings) and no external long-term debt as on September 30, 2022. The average utilisation of the fund-based facilities stood at around 38% for the 12-month period ended November 30, 2022, leaving additional liquidity buffer. Furthermore, the company also enjoys significant financial flexibility by virtue of being a part of the TATA group.

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](#)
[Policy on Withdrawal of Ratings](#)

About the company

Incorporated on February 28, 2008, TCPSL is a wholly-owned subsidiary of TCL. The company is the second-largest pure WLAO in India in terms of number of ATMs, which stood at 8,379 as per the National Payments Corporation of India (NCPI) data, as on October 31, 2022. 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, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	215.37	164.60	89.77
PBILDT	-2.98	3.23	-3.67
PAT	-139.45	-81.71	-47.55
Overall gearing (times)	5.82	3.42	NA
Interest coverage (times)	NM	0.12	NM

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 - LT-Bank overdraft	-	-	-	200.00	CARE AA-; Positive
Fund-based - LT-Bank overdraft	-	-	-	300.00	CARE AA-; Positive
Fund-based - LT/ ST-Bank overdraft	-	-	-	4.00	CARE AA-; Positive / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	60.00	CARE AA-; Positive / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	0.19	CARE A1+
Unsupported rating-Unsupported rating (Long term)	-	-	-	0.00	Withdrawn

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
Unsupported rating-Unsupported rating (Short term)	-	-	-	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	Fund-based - LT/ ST-Bank overdraft	LT/ST *	4.00	CARE AA-; Positive / CARE A1+	1)CARE AA- (CE); Positive / CARE A1+ (CE) (29-Jul-22)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (25-Nov-21)	1)CARE A1+ (CE) (08-Jan-21)	1)CARE A1+ (CE) (12-Feb-20)
2	Non-fund-based - ST-BG/LC	ST	0.19	CARE A1+	1)CARE A1+ (CE) (29-Jul-22)	1)CARE A1+ (CE) (25-Nov-21)	1)CARE A1+ (CE) (08-Jan-21)	1)CARE A1+ (CE) (12-Feb-20)
3	Fund-based - LT-Bank overdraft	LT	200.00	CARE AA-; Positive	1)CARE AA- (CE); Positive (29-Jul-22)	1)CARE AA- (CE); Stable (25-Nov-21)	1)CARE AA- (CE); Stable (08-Jan-21)	1)CARE AA- (CE); Stable (12-Feb-20)
4	Fund-based - LT-Bank overdraft	LT	300.00	CARE AA-; Positive	1)CARE AA+ (CE); Positive (29-Jul-22)	1)CARE AA+ (CE); Stable (25-Nov-21)	1)CARE AA+ (CE); Stable (08-Jan-21)	1)CARE AA+ (CE); Stable (12-Feb-20)
5	Commercial paper-Commercial paper (Standalone)	ST	-	-	-	-	1)Withdrawn (08-Jan-21)	1)Provisional CARE A1+ (CE) (05-Feb-20)
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)	1)Provisional CARE AA- (CE); Stable / CARE A1+ (CE) (12-Feb-20)
7	Commercial paper-Commercial paper (Standalone)	ST	-	-	-	-	1)Withdrawn (08-Jan-21)	1)Provisional CARE A1+ (CE) (05-Feb-20)
8	Commercial paper-Commercial paper (Standalone)	ST	-	-	-	-	1)Withdrawn (08-Jan-21)	1)Provisional CARE A1+ (CE) (05-Feb-20)

Sr. No.	Name of the Instrument/Bank	Current Ratings			Rating History			
9	Fund-based/Non-fund-based-LT/ST	LT/ST *	60.00	CARE AA-; Positive / CARE A1+	1)CARE AA- (CE); Positive / CARE A1+ (CE) (29-Jul-22)	1)CARE AA- (CE); Stable / CARE A1+ (CE) (25-Nov-21)	1)CARE AA- (CE); Stable (08-Jan-21)	1)CARE AA- (CE); Stable (12-Feb-20)
10	Unsupported rating-Unsupported rating (Long term)	LT	-	-	1)CARE A- (29-Jul-22)	1)CARE A- (25-Nov-21)	1)CARE A- (08-Jan-21)	1)CARE A- (12-Feb-20)
11	Unsupported rating-Unsupported rating (Short term)	ST	-	-	1)CARE A2+ (29-Jul-22)	1)CARE A2+ (25-Nov-21)	1)CARE A2+ (08-Jan-21)	1)CARE A2+ (12-Feb-20)

* 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.
III. Insurance Cover	Comprehensive insurance cover against all risks for loss of cash in ATMs

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

Sr. No.	Name of 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
5.	Unsupported rating-Unsupported rating (Long term)	Simple
6.	Unsupported rating-Unsupported rating (Short term)	Simple

Annexure-5: Bank lender details for this company

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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