Tata Communications Limited

April 14, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Proposed Non-Convertible Debentures	650.00	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Assigned**
Total Instrument	**650.00 (Rupees six hundred and fifty crore only)**		

Details of instrument in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed Non-convertible debenture issue of Tata Communications Limited (TCL) continue to reflect stable revenues and improved operating margin in Global Data Management Service (GDMS) business segment, dominant position in the Global Voice Segment (GVS) and the financial flexibility it enjoys being a part of the Tata group. Also, COVID-19 is expected to have positive impact due to increase in demand from both data usage and voice segment. The ratings also factor in TCL's vast global presence in diversified geographical area, its large cable network which has helped company to service its clients proficiently and its strong financial flexibility which has helped TCL to reduce its cost of borrowing.

The rating strengths are, however, constrained by decline in revenues and profitability from GVS segment due to intense competition, exposure to regulatory risk, TCLs limitation to raise equity, continued dependence on a large quantum of debt for its capex program, weak capital structure and moderate debt coverage indicators. The collection period is expected to increase due to likely delay in receipt of payment from customers in FY21 due to impact of COVID-19.

Sensitivities:

Negative Factor

- Further erosion of networth as well as increase in debt levels leading to deterioration in capital structure
- Any debt funded capex/investment leading to increase in Total Debt/PBILDT above 3.5 times on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group: TCL is a part of the over USD 100 billion Tata Group which comprises 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 telecommunication service provider and strategically important companies within the Tata group being one the oldest business.

Dominant position of the company in the Global Voice Segment (GVS) albeit decline in income and profitability due to intense competition: TCL continue to be one of the largest carrier of international wholesale voice traffic. TCL has over 300 direct routes with leading international voice telecommunication providers. During FY19, TCL handled approximately 30 billion minutes as against 35.4 billion minutes of international voice traffic globally in FY18, a decrease of 15.25% over the previous year. TCL's NLD (National Long Distance) traffic decreased from 3.9 billion minutes in FY18 to 2.6 billion minutes in FY19. Mobile Network Operators, however, continue to expand and roll out their domestic networks, shrinking the market for TCL's NLD services. Greater competition and regulatory initiatives have resulted in falling NLD tariffs over the years. The decline in GVS is largely attributed to the shrinkage in the addressable market for the Company as a result of higher usage of over-the-top (OTT) services and pricing pressures due to competition. During FY19, revenue from the GVS segment declined by around 27% to Rs.3,870 crore. However, PBILDT Margin improved to 8.7% in FY19 against 6.32% in FY18. The wholesale international voice business is mature and increasingly commoditized.

Continued focus on GDMS segment for better margin realization: During FY19, revenue share of GDMS segment increased to 76% (65% in FY18). This segment registered a revenue growth of around 10.4% in FY19 on y-o-y basis. TCL continues to focus on this segment (especially in the growth segment) as it is a high margin business and has taken up various branding and marketing initiatives which are expected to translate into revenue going forward. With the increase in revenue in the growth

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

segment (cloud hosting, streaming, managed security services, etc), the losses at PBILDT level has come down. The surge in demand for both global voice as well as global data segment due to COVID-19 is expected to improve the PBILDT level further.

Key Rating Weaknesses

Weak capital structure and moderate debt coverage indicators: The networth of TCL is impacted on account of past losses and write-off on account of investments in Tata Teleservices Limited (rated CARE A+; Stable/CARE A1+). Also, there is limitation for raising equity capital as substantial portion of equity is also held by Government of India. The total borrowings continued to be high at Rs.10,098.00 crore as on December 31, 2019 (Rs. 9,165 crore as at March 31, 2019). Though the debt levels of the company are high, the average cost of borrowings is low as majority of the debt is foreign currency debt raised by international subsidiaries. Further the company has natural hedge due to significant revenue and profit in dollars which helps in saving hedging cost.

TCL has also undertaken the process of monetization of its non-core assets to deleverage its balance sheet. TCL had moderate debt coverage indicators with interest coverage of 6.69x in FY19 (6.95x in FY18) and total debt to PBILDT of 3.45x as on March 31, 2019 (5.85 as on March 31, 2018). Any large debt funded acquisitions or capex resulting in further weakening of financial risk profile will continue to remain a key monitorable.

Refinancing Risk: CARE expect that current liquidity as well as operating cash would remain sufficient to meet debt repayment obligation for FY21. However, considering the company's continuous capex requirement and scheduled repayments due for FY22, the company may have to refinance part of its maturities falling due in FY22, which exposes company to refinancing risk and keep the debt levels at elevated level. However, by virtue of being part of the Tata Group, the company enjoys significant level of financial flexibility and access of capital market.

Losses in Payment Solutions segment: Payment Solutions (PS) includes end-to-end ATM deployment end-to-end POS enablement hosted core banking end to end financial inclusion and card issuance and related managed services and switching services to banking sector carried out by TCL's wholly owned subsidiary Tata Communications Payment Solutions Limited (TCPSL, rated CARE AA (CE); Stable/CARE A1+(CE)). TCL continue to report losses in the payment solution segment. TCPSL is operating total 12772 ATM as on March 31, 2019 (PY: 16167 ATM). It has closed 3395 ATM during FY19 to rationalize ATM portfolio and focus on improving profitability. The average transaction per day per ATM has gone up from 70 in FY18 to 90 in FY19. During 9MFY20, TCPSL has further closed about 735 unprofitable ATM's (mainly Brown Label ATM's).

Regulatory risk: The telecommunication sector in India is surrounded by regulatory uncertainties and TCL remains susceptible to adverse regulatory changes. During H1FY20, DOT has demanded Rs. 6633 crore from the company towards license fee and spectrum charges on its AGR dues for the previous 12 years ended FY18. The above amount also included Rs. 5433 crore which were disallowed by DoT towards the cost adjusted on accrual basis instead of actual payments to the gross revenues; against which the company has already submitted a revised statement based on actual payments in H2FY20. The company appeal on the above charges has not been included in the AGR ruling declared by Hon'ble Supreme Court on October 24, 2019. The matter is still pending with Hon'ble Supreme Court and Hon'ble Madras High Court. The ability of TCL to mitigate these regulatory risks will be a key rating factor.

Liquidity analysis: Strong

TCL has strong liquidity profile with unencumbered cash and cash equivalents of around Rs. 1,134 crore as on December 31, 2019. The utilization of working capital limits remained moderate during last 12 twelve trailing ended March 2020. CARE expects that the collection period is expected to increase in FY21 due to delay in receipt of payment from customers due to COVID-19. CARE also expects that the available cash and liquid investments as well as operating cash flow of around Rs. 2,350 crore is expected to remain sufficient to meet the debt repayment obligation of about Rs. 1,591 crore for FY21. Also, unutilized working capital limits thereby providing cushion to meet any contingencies if arises.

Analytical approach: CARE has adopted a consolidated approach on account of operational and financial linkages among entities. The list of entities whose financials have been combined with TCL are mentioned in Annexure 4.

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector

About the Company
Tata Communications Limited (TCL) was incorporated on March 19, 1986 as Videsh Sanchar Nigam Limited (VSNL), an entity wholly owned by the Government of India (GoI). GoI, vide its letter dated 27 March 1986, transferred all assets and liabilities of the Overseas Communications Service (OCS, part of the Department of Telecommunications, Ministry of Communications) to VSNL with effect from April 01, 1986. During 2002, Tata Group acquired 50% stake in the company and in the year 2008, the company changed its name from VSNL to TCL. As at March 31, 2020, the Tata Group held 48.86% stake and GoI holds 26.12% stake. National Company Law Tribunal (NCLT) and Central Government through Ministry of Corporate Affairs (MCA) have approved the long pending demerger of surplus land on July 12, 2018 and August 05, 2019 respectively and recorded September 18, 2019 as record date of the demerger scheme.
During 9MFY20 on consolidated level, the company has reported operating Income of Rs. 12,702 crore, PBILDT of Rs.2,452 crore and PAT of Rs. 190 crore as against operating income of Rs. 12,302 crore, PBILDT of Rs.2,080 crore and PAT of Rs. 118 crore in 9MFY19.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	16,817	16,435
PBILDT	2,393	2,655
PAT	-326	-80
Overall gearing (times)	26.73	NM
Interest coverage (times)	6.95	6.69

A: Audited; NM: Not meaningful
The financials have been reclassified as per CARE standard

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments

Name of the Instrument	ISIN No.	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	Yet to be issued				650.00	CARE AA+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA+ (Is); Stable	-	1)CARE AA+ (Is); Stable (05-Jul-19)	1)CARE AA+ (Is); Stable (17-Dec-18)	1)CARE AA+ (Is); Stable (08-Jan-18)
2.	Debentures-Non Convertible Debentures	LT	-	-	1) Withdrawn (11-Apr-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (17-Dec-18)	1)CARE AA+; Stable (08-Jan-18)
3.	Fund-based - ST-EPC/PSC	ST	240.00	CARE A1+	-	1)CARE A1+ (21-Jan-20) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (17-Dec-18)	1)CARE A1+ (08-Jan-18)
4.	Non-fund-based - ST-BG/LC	ST	719.00	CARE A1+	-	1)CARE A1+ (21-Jan-20) 2)CARE A1+	1)CARE A1+ (17-Dec-18)	1)CARE A1+ (08-Jan-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						(05-Jul-19)		
5.	Debentures-Non Convertible Debentures	LT	-	-	1) Withdrawn (11-Apr-20)	1)CARE AA+; Stable (05-Jul-19)	1)CARE AA+; Stable (17-Dec-18)	1)CARE AA+; Stable (08-Jan-18)
6.	Fund-based/Non-fund-based-Short Term	ST	218.00	CARE A1+	-	1)CARE A1+ (21-Jan-20) 2)CARE A1+ (05-Jul-19)	1)CARE A1+ (17-Dec-18)	1)CARE A1+ (08-Jan-18)
7.	Non-fund-based - LT-Bank Guarantees	LT	40.00	CARE AA+; Stable	-	1)CARE AA+; Stable (21-Jan-20)	-	-
8.	Debentures-Non Convertible Debentures	LT	650.00	CARE AA+; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument

Name of the Instrument	Detailed explanation
A. Financial covenants	
I EBITDA/Net Interest Expense ratio	EBITDA/Net Interest Expense ratio >=3.50:1
Ii Net Debt/EBITDA ratio	For any financial year where the ratio of Net Debt to EBITDA is greater than 3.00:1, Net Debt shall not, at any time during that Relevant Period, exceed USD 2.5 billion
Iii Net Fixed Assets /Net debt ratio	Net fixed assets/net debt ratio >=1.00x
B. Non-financial covenants	
I minimum shareholding	Tata group to retain at least 26% shareholding
Ii management control	Tata group to retain management control directly or indirectly

Annexure- 4 List of subsidiaries, associates and joint ventures of TCL getting consolidated (list as on March 31, 2019)

Sr No.	Name of the company	% holding by TCL
1	TATA COMMUNICATIONS (AUSTRALIA) PTY LIMITED	100%
2	TATA COMMUNICATIONS (AMERICA) INC.	100%
3	TCPOP COMMUNICATION GMBH	100%
4	TATA COMMUNICATIONS (BELGIUM) SPRL	100%
5	TATA COMMUNICATIONS (BERMUDA) LIMITED	100%
6	TATA COMMUNICATIONS SERVICES (BERMUDA) LIMITED	100%
7	TATA COMMUNICATIONS (BEIJING) TECHNOLOGY LIMITED	100%
8	TATA COMMUNICATIONS (CANADA) LTD.	100%
9	TATA COMMUNICATIONS (FRANCE) SAS	100%
10	TATA COMMUNICATIONS DEUTSCHLAND GMBH	100%
11	TATA COMMUNICATIONS (GUAM) L.L.C.	100%
12	TATA COMMUNICATIONS (HONG KONG) LIMITED	100%
13	TATA COMMUNICATIONS (HUNGARY) LLC	100%
14	TATA COMMUNICATIONS (IRELAND) DAC	100%
15	TATA COMMUNICATIONS (ITALY) S.R.L	100%
16	TATA COMMUNICATIONS (JAPAN) K.K.	100%
17	ITXC IP HOLDINGS S.A.R.L.	100%
18	TATA COMMUNICATIONS (MALAYSIA) SDN. BHD.	100%
19	TATA COMMUNICATIONS (NETHERLANDS) B.V.	100%
20	TATA COMMUNICATIONS (NEW ZEALAND) LIMITED	100%
21	TATA COMMUNICATIONS (NORDIC) AS	100%
22	TATA COMMUNICATIONS (POLAND) SP. Z 0. 0.	100%

Sr No.	Name of the company	% holding by TCL
23	TATA COMMUNICATIONS (PORTUGAL) INSTALACAO E MANUTENCAO DE REDES, LOA	100%
24	TATA COMMUNICATIONS (PORTUGAL), UNIPESSOAL LDA	100%
25	TATA COMMUNICATIONS (RUSSIA) LLC.	90.90%
26	TATA COMMUNICATIONS INTERNATIONAL PTE. LTD.	100%
27	VSNL SNOSPV PTE. LTD.	100%
28	TATA COMMUNICATIONS SERVICES (INTERNATIONAL) PTE. LTD.	100%
29	TATA COMMUNICATIONS (SPAIN), S.L.	100%
30	TATA COMMUNICATIONS (SWEDEN) AB	100%
31	TATA COMMUNICATIONS (SWITZERLAND) GMBH	100%
32	TATA COMMUNICATIONS (TAIWAN) LTD	100%
33	TATA COMMUNICATIONS (THAILAND) LIMITED	100%
34	TATA COMMUNICATIONS (MIDDLE EAST) FZ-LLC	100%
35	TATA COMMUNICATIONS (UK) LIMITED	100%
36	TATA COMMUNICATIONS TRANSFORMATION SERVICES LIMITED	100%
37	TATA COMMUNICATIONS PAYMENT SOLUTIONS LIMITED	100%
38	TATA COMMUNICATIONS COLLABORATION SERVICES PRIVATE LIMITED	100%
39	SEPCO COMMUNICATIONS (PTY) LIMITED	73.17%
40	TATA COMMUNICATIONS LANKA LIMITED	90.00%
41	TATA COMMUNICATIONS (SOUTH KOREA) LIMITED	100%
42	TATA COMMUNICATIONS TRANSFORMATION SERVICES PTE LIMITED	100%
43	Tata Communications Transformation Services (Hungary) Kft.	100%
44	Tata Communications (Brazil) Participacoes Limitada	100%
45	Nexus Connexion (SA) Pty Limited	100%
46	Tata Communications Transformation Services (US) Inc	100%
47	Tata Communications Transformation Services South Africa (Pty) Ltd	100%
48	Tata Communications Cornunlcacoes E Multimfdia (Brazil) Limitada	100%
49	Tata Communications MOVE B.V.(Earlier known as Teleena Holding B. V.)	100%
50	Tata Communications MOVE Nederland B.V, (Earlier known as Teleena Nederland B.V.)	100%
51	Tata Communications MOVE UK Limited (Earlier known as Teleena UK Limited)	100%
52	Tata Communications MOVE Singapore Pte. Ltd. (Earlier known as Teleena Singapore Pte. Ltd.)	100%
53	MuCoso B.V.	100%
54	NetFoundry Inc.	100%
55	STT GLOBAL DATA CENTERS PRIVATE LTD	26%
56	UNITED TELECOM LIMITED	26.66%
57	SMART ICT SERVICES PRIVATE LIMITED	24%
58	STT Tai Seng Pte Limited	26%

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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