Tata Communications Limited

January 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Short-term Bank Facilities	1,511	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total	**1511 (Rupees One Thousand Five Hundred and Eleven Crore Only)**		
Long-term Non-Convertible Debenture -1	155 (Rs. One hundred and fifty five crore only)	**CARE AA+; Stable [Double A Plus; Outlook: Stable]**	**Reaffirmed**
Issuer Rating		**CARE AA+; Stable [Double A Plus; Outlook: Stable]**	**Reaffirmed**

******Details of instruments/facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to Tata Communications Limited (TCL) reflect continuance of revenue growth and improved operating margin in Data Management Service (DMS) business segment, and dominant position in the Global Voice Segment (GVS) and the financial flexibility it enjoys being a part of the Tata group.

The reaffirmation of 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 refinancing capability which has helped TCL to reduce its cost of borrowing. Also, the ratings positively factor the stake sale of Neotel (Pty) Limited to Liquid Telecom TT, South Africa.

The rating strengths are, however, constrained by decline in revenues and profitability from Global Voice Solutions (GVS), TCLs limitation to raise equity, continued dependence on a large quantum of debt for its capex program, weak capital structure on account of past losses and moderate debt coverage indicators.

The ability of the company to improve its income and profitability in the Global Data Managed Services (GDMS) Segment, fund the future capex as envisaged, retain its clientele in the GVS segment on profitable terms are the key rating sensitivities. Also, TCL is in discussions with Tata Tele [Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited together referred as Tata Tele] regarding potential acquisition of its enterprise business. The terms of the transactions shall be a key rating monitorable.

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 seven business sectors namely communications and information technology, engineering, materials, 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

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

group being one the oldest business.

Dominant position of the company in the global voice segment albeit decline in income and profitability

During FY17, TCL handled approximately 38.4 billion minutes of international voice traffic globally, a decrease of 4.1% over the previous year. During the year, traffic to and from India decreased to approximately 13.9 billion minutes, from approximately 14.2 billion Minutes in FY16. 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 & volume pressures due to competition. The volumes in this business continued to decline due to a continued shift in traffic to voice over internet protocol (VoIP) based calling.

NLD traffic within India is still growing, however, the rate of growth has slowed down. TCL's NLD traffic has increased from 3.1 billion minutes in FY16 to 4.1 billion minutes in FY17. Mobile Network Operators (MNOs), 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.

Continued focus on GDMS segment

Share of GDMS segment increased to 59% (52% in FY16, considering continuing operations) of the total revenues. This segment registered a revenue growth of 10.23% in FY17 as compared to previous year.

The company continues to focus on this 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. Besides, the company has been creating new revenue streams to augment the existing offerings.

Stake sale of Neotel

On Feb 10, 2017, TCL and Nexus Connexion successfully completed the sale of its entire shareholding in Neotel Pty. Ltd. ("Neotel") to Liquid Telecom, South Africa The enterprise value of the transaction was ZAR 6.55 Billion (approximately Rs. 3,200 crore) subject to certain closing adjustments and conditions.

Stake Sale Data Centre Business Segment

On October 19, 2016, TCL completed the sale of 74% shareholding in Tata Communications Data Centers Private Limited (TCDC) for a cash consideration of Rs.1,796.78 crores resulting into a gain on sale of subsidiary of Rs. 2,127.33 crores (including Rs. 584.54 crores on re-measurement of remaining 26% shareholding). Further, on February 13, 2017, The Group has completed the sale of Singapore data center business by selling its net assets in Singapore data center business for a cash consideration of Rs. 823.15 crores resulting in a gain on sale of Rs.738.87 crores.

Key Rating Weakness

Weak capital structure albeit debt reduction in the current year

TCL borrowings decreased from Rs. 14,231 crore as at March 31, 2016 to Rs.9,313 crore as at March 31, 2017 on account of proceeds from sale of Neotel and TCDC. However, past losses have led to substantial erosion of consolidated net worth. The reduction in debt and improved GCA on account of sale of loss making business in Neotel had improved the debt coverage indicators of TCL.

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. Also, TCL has undertaken the process of monetization of its non-core assets to deleverage its balance sheet.

Also, TCL is in discussions with Tata Tele [Tata Teleservices Limited and Tata Teleservices (Maharashtra) Limited together referred as Tata Tele] regarding potential acquisition of its enterprise business. The terms of the transactions shall be a key rating monitorable.

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 Company's wholly owned subsidiary Tata Communications Payment Solutions Limited. TCL has an investment of Rs.1,398.06 crores (Rs.1,352.71 crores in FY16) in equity shares of Tata Communications Payment Solutions Limited (TCPSL).

Analytical approach: Consolidated

Applicable Criteria

[Rating Methodology - Infrastructure Sector]
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios - Non-Financial sector]
[Rating methodology- Factoring Linkages]

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 September 30, 2017, the Tata Group held 48.87% stake and GoI holds 26.12% stake.

Following table shows the brief financials of TCL (consolidated):

Brief Financials (Rs. crore)	FY16 (Audited)*	FY17 (Audited)*
Income from Continuing Operations	18387.71	17850.14
PBILDT	2673.82	2618.11
PAT	-598.36	2100.21
Overall gearing (times)	-ve	5.72
Interest coverage (times)	6.54	7.13

**The financials have been reclassified as per CARE standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.*

Analyst Contact
Name: Pawan Matkari
Tel: 022-67548 529
Email: pawan.matkari@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-EPC/PSC	-	-	-	245.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	896.00	CARE A1+
Fund-based/Non-fund-based-Short Term	-	-	-	370.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA+ (Is); Stable
Debentures-Non Convertible Debentures	23-Jan-09	11.25%	23-Jan-19	5.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	2-Jul-09	9.85%	2-Jul-19	150.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA+ (Is); Stable	-	1)CARE AA+ (Is) (21-Oct-16)	1)CARE AA+ (Is) (03-Nov-15)	1)CARE AA+ (Is) (29-Oct-14)
2.	Debentures-Non Convertible Debentures	LT	10.00	CARE AA+; Stable	-	1)CARE AA+ (22-Dec-16) 2)CARE AA+ (21-Oct-16)	1)CARE AA+ (03-Nov-15)	1)CARE AA+ (29-Oct-14)
3.	Fund-based - ST-EPC/PSC	ST	245.00	CARE A1+	-	1)CARE A1+ (22-Dec-16) 2)CARE A1+ (21-Oct-16)	1)CARE A1+ (03-Nov-15)	1)CARE A1+ (29-Oct-14)
4.	Non-fund-based - ST-BG/LC	ST	896.00	CARE A1+	-	1)CARE A1+ (22-Dec-16) 2)CARE A1+ (21-Oct-16)	1)CARE A1+ (03-Nov-15)	1)CARE A1+ (29-Oct-14)
5.	Debentures-Non Convertible Debentures	LT	145.00	CARE AA+; Stable	-	1)CARE AA+ (22-Dec-16) 2)CARE AA+ (21-Oct-16)	1)CARE AA+ (03-Nov-15)	1)CARE AA+ (29-Oct-14)
6.	Fund-based/Non-fund-based-Short Term	ST	370.00	CARE A1+	-	1)CARE A1+ (22-Dec-16) 2)CARE A1+ (21-Oct-16)	1)CARE A1+ (03-Nov-15)	1)CARE A1+ (29-Oct-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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