

## Tata Communications Limited

July 05, 2019

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short-term Bank Facilities	1,217.00 (reduced from 1,433.00)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total</b>	<b>1,217.00</b> <b>(Rupees One Thousand Two Hundred and Seventeen Crore only)</b>		
Long-term Non-Convertible Debenture	150.00 (reduced from 155.00) <b>(Rupees One Hundred and Fifty Crore only)</b>	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Reaffirmed
Issuer Rating	-	CARE AA+ (Is); 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 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.

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 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, 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 ability of the company to improve its income and profitability in the GDMS Segment, fund the future capex as envisaged, retain its clientele in the GVS segment on profitable terms are the key rating sensitivities. Further, any debt funded acquisition impacting its financial risk profile will be the key monitorable.

### Detailed description of the key rating drivers

#### Key Rating Strength

**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:** TCL continue to be one of the largest players worldwide in the wholesale voice business. TCL is the world's 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 35.4 billion minutes of international voice traffic globally, 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. However, tariffs appear to have stabilised for the industry. 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, PBILD Margin improved to 8.7% in FY19 against 6.32% in FY18. The wholesale international voice business is mature and increasingly commoditized.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**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 segment (cloud hosting, streaming, managed security services, etc), the losses at EBITDA level has come down.

#### Key Rating Weaknesses

**Weak capital structure and moderate debt coverage indicators:** The network of TCL is impacted on account of past losses and write-off on account of investments in Tata Teleservices Limited. 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.9,165.00 crore as on March 31, 2019 (Rs.8933.68 crore as at March 31, 2018). 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 GCA of 4.75x as on March 31, 2019 (5.85 as on March 31, 2018). The company does not have any major capex plan in near term. However, any large debt funded acquisitions or capex will remain a key 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 TCL's wholly owned subsidiary Tata Communications Payment Solutions Limited. TCL continue to report losses in the payment solution segment. The company is operating total 12772 ATM as on March 31, 2019 (PY: 16167 ATM). The company 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.

**Strong Liquidity Profile:** TCL has strong liquidity profile with unencumbered cash and cash equivalents of around Rs. 1,448.06 crore as on March 31, 2019. Also, the working capital utilizations are low thereby providing cushion to meet any contingencies. Furthermore, by virtue of being part of the Tata Group, the company enjoys significant level of financial flexibility.

**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 is mentioned in Annexure 3.

#### Applicable Criteria

[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](#)

[Rating Methodology - Infrastructure 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, 2019, 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)*	FY18 (Audited)	FY19 <sup>§</sup> (Audited)
Total Operating Income	16,817	16,435
PBILDT	2,393	2,655
PAT	-326	-80
Overall Gearing	26.73	NM
Interest Coverage	6.95	6.69

NM: Not meaningful

\*The financials are adjusted as per CARE Standards

§based on audited abridged financials published by the company

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/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	-	-	-	240.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	759.00	CARE A1+
Fund-based/Non-fund-based-Short Term	-	-	-	218.00	CARE A1+
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA+ (Is); Stable
Debentures-Non Convertible Debentures	July 02, 2009	9.85%	2-Jul-19	5.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	July 02, 2009	9.85%	2-Jul-19	145.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA+ (Is); Stable	-	1)CARE AA+ (Is); Stable (17-Dec-18)	1)CARE AA+ (Is); Stable (08-Jan-18)	1)CARE AA+ (Is) (21-Oct-16)
2.	Debentures-Non Convertible Debentures	LT	5.00	CARE AA+; Stable	-	1)CARE AA+; Stable (17-Dec-18)	1)CARE AA+; Stable (08-Jan-18)	1)CARE AA+ (22-Dec-16) 2)CARE AA+ (21-Oct-16)
3.	Fund-based - ST-EPC/PSC	ST	240.00	CARE A1+	-	1)CARE A1+ (17-Dec-18)	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (22-Dec-16) 2)CARE A1+ (21-Oct-16)
4.	Non-fund-based - ST-BG/LC	ST	759.00	CARE A1+	-	1)CARE A1+ (17-Dec-18)	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (22-Dec-16) 2)CARE A1+ (21-Oct-16)
5.	Debentures-Non Convertible Debentures	LT	145.00	CARE AA+; Stable	-	1)CARE AA+; Stable (17-Dec-18)	1)CARE AA+; Stable (08-Jan-18)	1)CARE AA+ (22-Dec-16) 2)CARE AA+ (21-Oct-16)
6.	Fund-based/Non-fund-based-Short Term	ST	218.00	CARE A1+	-	1)CARE A1+ (17-Dec-18)	1)CARE A1+ (08-Jan-18)	1)CARE A1+ (22-Dec-16) 2)CARE A1+ (21-Oct-16)

**Annexure- 3 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 O. O.	100%
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	VSNN SNO SPV 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 Cornunlcaoes 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%

Sr No.	Name of the company	% holding by TCL
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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### 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.

### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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