Tata Communications Payment Solutions Limited

February 12, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities-Fund Based[&]	300.00[&]	**CARE AA+ (CE); Stable [Double A Plus (Credit enhancement); Outlook: Stable]**	**Revised from CARE AA (CE); Stable [Double A (Credit Enhancement); Outlook: Stable]**
Long Term Bank Facilities-Fund Based[@*]	200.00[@*]	**CARE AA- (CE); Stable [Double A Minus (Credit enhancement); Outlook: Stable]**	**Revised from CARE A1+ (CE) [A One Plus (Credit Enhancement)]**
Long Term Bank Facilities-Non-fund based[@]	30.00[@]	**CARE AA- (CE); Stable [Double A Minus (Credit enhancement); Outlook: Stable]**	**Revised from CARE AA (CE); Stable [Double A (Credit Enhancement); Outlook: Stable]**
Short Term Bank Facilities - Fund based[@]	44.00[@]	**CARE A1+ (CE) [A One Plus (Credit enhancement)]**	**Reaffirmed**
Short Term Bank Facilities-Non-fund based[@]	25.00[@]	**CARE A1+ (CE) [A One Plus (Credit enhancement)]**	**Reaffirmed**
Proposed Long-Term /Short-Term Bank Facilities^	100.00^	**Provisional CARE AA-(CE); Stable/CARE A1+(CE) [Provisional Double A Minus (Credit enhancement); Outlook: Stable]/ [Provisional A One Plus (Credit enhancement)]**	**Long term rating revised from CARE AA (CE); Stable [Double A (Credit Enhancement); Outlook: Stable] and short term rating reaffirmed**
Total Facilities	**699.00 (Rupees six hundred ninety nine crore only)**		

Details of instruments/facilities in Annexure-1
**reclassified from short-term to long-term*
[&]backed by credit enhancement in the form of unconditional and irrevocable corporate guarantee from Tata Communications Ltd. (TCL), rated CARE AA+; Stable/CARE AA+ (Is); Stable/CARE A1+. CARE has obtained legal opinion on Corporate Guarantee document provided.
@backed by credit enhancement in the form of letter of comfort from TCL.
^ to be backed by credit enhancement in the form of letter of comfort proposed to be extended by TCL.

Unsupported Rating [2]	**CARE A-/CARE A2+ (Single A Minus/A Two Plus)**

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The revision in the ratings assigned to long-term bank facilities of Tata Communications Payment Solutions Limited (TCPSL) from CARE AA (CE); Stable to CARE AA-(CE); Stable is due to change in the criteria on ‘rating of credit enhanced debt’, while the short term rating assigned to bank facilities are reaffirmed at CARE A1+ (CE). The ratings continue to factor in the credit enhancement in the form of Letter of Comfort extended by TCL to the lenders of TCPSL. It may be noted that this movement in ratings is only pursuant to change in analytical approach by CARE Ratings and should not be construed as deterioration in the credit profile of the LOC provider or the standalone credit profile of the issuer.

The revision in the rating assigned to one of long term bank facility amounting to Rs. 300.00 crore of TCPSL takes into account the change in explicit support provided by TCL to the lender of TCPSL. The rating assigned to the aforementioned bank facility factors in the credit enhancement in the form irrevocable and unconditional corporate guarantee from TCL.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*
[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix ‘CE’ (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix ‘SO’ (Structured Obligation).*

Detailed Rationale & Key Rating Drivers of the Tata Communications Limited (the Guarantor and LOC provider)
The credit profile of 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 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.

Rating 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 Rationale & Key Rating Drivers of Tata Communications Payment Solutions Limited (TCPSL)
The unsupported ratings of CARE A-/CARE 2+ of Tata Communications Payment Solutions Limited derives strength from strong operational, managerial and financial support from experienced promoter i.e. TCL. The ratings also factor in the favourable market for ATM management services in India. The rating strengths are, however, tempered by subdued operational and financial performance of TCPSL in FY19 and H1FY20, weak financial risk profile and debt coverage indicators, highly regulated market for ATM and Payment Solution business, Technology obsolesce risk.

Detailed description of the key rating drivers of TCL

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 due to intense competition
TCL continue to be one of the largest players worldwide in the wholesale voice business. TCL is the world's 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 segment (cloud hosting, streaming, managed security services, etc), the losses at EBITDA level has come down.

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.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 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.

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 H1FY20, 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. Recent, Supreme Court's ruling dated October 24, 2019 that the telecom players have to include non-core revenues in Adjusted Gross Revenue (AGR) to calculate the spectrum charges. TCL has received demand from Department of Telecommunications (DoT) for Rs. 6,633.43 crore which is to be paid by January 24, 2020 as per the Hon'ble Supreme Court order dated October 24, 2019. The ability of TCL to mitigate these regulatory risks is a key rating factor.

Strong Liquidity Profile
TCL has strong liquidity profile with unencumbered cash and cash equivalents of around Rs. 1023 crore as on September 30, 2019 as against Rs. 1,448.06 crore as on March 31, 2019. Also, the working capital utilizations are low thereby providing cushion to some extent to meet any contingencies. Furthermore, by virtue of being part of the Tata Group, the company enjoys significant level of financial flexibility.

Analytical approach:
Unsupported Ratings: CARE has adopted a standalone approach. Parent notching factors are also considered as the parent (TCL) holds 100% shareholding in TCPSL. The operational and financial linkages with TCL, which are integral to the operations of TCPSL, have been considered.

Credit Enhanced ratings: The ratings are based on credit enhancement/expected credit enhancement in the form of letter of Comfort/Guarantee extended/ to be extended by TCL in favor of the lenders of TCPSL. For credit enhanced ratings, CARE has applied its criteria on rating of credit enhanced debt.

Applicable Criteria
Criteria on assigning rating outlook and credit watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Criteria for Credit enhanced debt
CARE's Policy on Assignment of Provisional Ratings
Rating Methodology – Infrastructure Sector Ratings
Rating Methodology – Services Sector Companies
Rating methodology- Consolidation and Factoring Linkages in ratings
Financial ratios - Non-Financial sector

About the Company – TCPSL
TCPSL, erstwhile Tata Communications Banking Infra Solutions Ltd. is a wholly owned subsidiary of Tata Communications Ltd. (TCL, CARE AA+/A1+). TCPSL is a banking and financial services organization offering a one stop 'plug-and-play' infrastructure management solution on a pay-per-use model to its clients. The company provides payment solutions such as managed ATM (Automated Teller Machine) services, managed hosted core banking solutions, point of sale (POS) solutions, card issuance & management and financial inclusion solutions. These services enable banks to focus on their core business, establish core banking processes, customer acquisition and retention channels with minimum resource allocations.

Brief Financials (Rs. crore)*	FY18 (Audited)	FY19 (Audited)
Total Operating Income	383.06	357.11
PBILDT	-20.01	5.66
PAT	-184.99	-125.22
Overall Gearing	1.14	1.64
Interest Coverage	-ve	0.20

-ve: Negative

**The financials are adjusted as per CARE Standards*

About Tata Communications Payment Solutions Limited (Guarantor and LOC provider)

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 December 31, 2019, 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, the company has reported operating Income of Rs. 12702.45 crore, PBILDT of Rs.2452.46 crore and PAT of Rs. 190.16 crore as against operating income of Rs. 12302.23 crore, PBILDT of Rs.2080.38 crore and loss of Rs. 118.02 crore in 9MFY19.

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

Brief Financials (Rs. crore)*	FY18 (Audited)	FY19 (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*

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-Bank Overdraft	-	-	-	44.00	CARE A1+ (CE)
Non-fund-based - ST-Bank Guarantees	-	-	-	25.00	CARE A1+ (CE)
Fund-based - LT-Bank Overdraft	-	-	-	200.00	CARE AA- (CE); Stable
Fund-based - LT-Bank Overdraft	-	-	-	300.00	CARE AA+ (CE); Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	100.00	Provisional CARE AA- (CE); Stable / CARE A1+ (CE)
Non-fund-based - LT-Bank Guarantees	-	-	-	30.00	CARE AA- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE A-
Un Supported Rating-Un Supported Rating (Short Term)	-	-	-	0.00	CARE A2+

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.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	1)Withdrawn (05-Feb-18) 2)CARE AA+ (SO); Stable (08-Jan-18)	1)CARE AA+ (SO) (26-Dec-16) 2)CARE AA+ (SO) (01-Nov-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	-	1)Withdrawn (05-Feb-18) 2)CARE A1+ (SO) (08-Jan-18)	1)CARE A1+ (SO) (26-Dec-16) 2)CARE A1+ (SO) (01-Nov-16)
3.	Fund-based - ST-Bank Overdraft	ST	44.00	CARE A1+ (CE)	-	1)CARE A1+ (SO) (20-Dec-18)	1)CARE A1+ (SO) (05-Feb-18) 2)CARE A1+ (SO) (08-Jan-18)	1)CARE A1+ (SO) (26-Dec-16) 2)CARE A1+ (SO) (01-Nov-16)
4.	Non-fund-based - ST-Bank Guarantees	ST	25.00	CARE A1+ (CE)	-	1)CARE A1+ (SO) (20-Dec-18)	1)CARE A1+ (SO) (05-Feb-18) 2)CARE A1+ (SO) (08-Jan-18)	1)CARE A1+ (SO) (26-Dec-16) 2)CARE A1+ (SO) (01-Nov-16)
5.	Fund-based - LT-Bank Overdraft	LT	200.00	CARE AA- (CE); Stable	-	1)CARE A1+ (SO) (20-Dec-18) 2)CARE A1+ (SO); Stable (21-Aug-18)	1)CARE A1+ (SO) (05-Feb-18) 2)CARE A1+ (SO) (08-Jan-18)	1)CARE A1+ (SO) (26-Dec-16) 2)CARE A1+ (SO) (01-Nov-16)
6.	Fund-based - LT-Bank Overdraft	LT	300.00	CARE AA+ (CE); Stable	-	1)CARE AA (SO); Stable (20-Dec-18)	1)CARE AA (SO); Stable (05-Feb-18) 2)CARE AA (SO); Stable (08-Jan-18)	1)CARE AA (SO) (26-Dec-16) 2)CARE AA (SO) (01-Nov-16)
7.	Commercial Paper	ST	100.00	Provisional CARE A1+ (CE)	1)Provisional CARE A1+ (CE) (05-Feb-20)	1)CARE A1+ (SO) (20-Dec-18)	1)CARE A1+ (SO) (08-Jan-18) 2)CARE A1+ (SO) (18-Oct-17) 3)Provisional CARE A1+ (SO) (27-Sep-17)	1)Provisional CARE A1+ (SO) (26-Dec-16)

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
8.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	100.00	Provisional CARE AA- (CE); Stable / CARE A1+ (CE)	-	1)Provisional CARE AA (SO); Stable / CARE A1+ (SO) (20-Dec-18)	1)Provisional CARE AA (SO); Stable / CARE A1+ (SO) (05-Feb-18) 2)Provisional CARE AA (SO); Stable / CARE A1+ (SO) (08-Jan-18)	1)Provisional CARE AA (SO) / CARE A1+ (SO) (26-Dec-16)
9.	Commercial Paper	ST	100.00	Provisional CARE A1+ (CE)	1)Provisional CARE A1+ (CE) (05-Feb-20)	1)CARE A1+ (SO) (20-Dec-18)	1)CARE A1+ (SO) (08-Jan-18) 2)CARE A1+ (SO) (18-Oct-17) 3)CARE A1+ (SO) (27-Sep-17)	-
10.	Commercial Paper	ST	50.00	Provisional CARE A1+ (CE)	1)Provisional CARE A1+ (CE) (05-Feb-20)	1)Provisional CARE A1+ (SO) (20-Dec-18)	1)Provisional CARE A1+ (SO) (08-Jan-18) 2)Provisional CARE A1+ (SO) (18-Oct-17)	-
11.	Fund-based/Non-fund-based-Long Term	LT	-	-	-	1)CARE AA (SO); Stable (20-Dec-18) 2)CARE AA (SO); Stable (21-Aug-18)	-	-
12.	Non-fund-based - LT-Bank Guarantees	LT	30.00	CARE AA- (CE); Stable	-	-	-	-
13.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE A-	-	-	-	-
14.	Un Supported Rating-Un Supported Rating (Short Term)	ST	0.00	CARE A2+	-	-	-	-

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

Name of the Instrument	Detailed explanation
A. Non-financial covenants	
I Promoter holding to be maintained at minimum 51%	TCL i.e. directly or indirectly shall maintain a minimum shareholding of 51% in the TCPSL
Ii change in management control	
Iii inclusion of borrower and/or any of the director in Reserve Bank of India's Willful defaulters list	
Iv appointment of Nominee Director on the board of the company	If the borrower defaults in repayment and same is not cured within 30 days, the bank will have right to appoint nominee directors of the borrower to look after its interest

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. : +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Mr. Ratnam Raju Nakka
Group Head Contact no.: +91-22- 6837 4472
Group Head Email ID: ratnam.nakka@careratings.com

Relationship Contact
Mr. Saikat Roy
Contact no. : +91-22- 68754 3404
Email ID: saikat.roy@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.

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