Tata Communications Payment Solutions Limited

December 20, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
@Long Term Bank Facilities	400	**CARE AA (SO); Stable [Double A (Structured Obligation); Outlook: Stable]**	**Reaffirmed**
@Short Term Bank Facilities	364	**CARE A1+ (SO) [A One Plus (Structured Obligation)]**	**Reaffirmed**
^Proposed Bank Facilities-Long Term /Short Term	100	**Provisional CARE AA(SO); Stable/CARE A1+(SO) [Provisional Double A(Structured Obligation); Outlook: Stable]/ [Provisional A One Plus (Structured Obligation)]**	**Reaffirmed**
Total Bank Facilities	**864 (Rupees Eight Hundred Sixty Four Crore only)**		
@Commercial Paper	200	**CARE A1+ (SO) [A One Plus (Structured Obligation)]**	**Reaffirmed**
^Proposed Commercial Paper	50	**Provisional CARE A1+(SO) [Provisional A One Plus (Structured Obligation)]**	**Reaffirmed**

Details of instruments/facilities in Annexure-1
@backed by credit enhancement in the form of letter of comfort from Tata Communications Ltd. (TCL), rated CARE AA+/CARE A1+
^ backed by credit enhancement in the form of letter of comfort proposed to be extended by TCL

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings on the bank facilities/instruments of Tata Communications Payment Solutions Limited (TCPSL) factors in the credit enhancements extended by Tata Communications Ltd. [TCL, rated CARE AA+/CARE A1+].

Detailed Rationale & Key Rating Drivers of the Guarantor -TCL

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 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. 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 Strength
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 group being one the oldest business.

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

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 FY18, TCL handled approximately 35.4 billion minutes of international voice traffic globally, a decrease of 8.3% over the previous year. TCL's NLD (National Long Distance) traffic decreased from 4.3 billion minutes in FY17 to 3.9 billion minutes in FY18. 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.

Following table shows the income from NLD and ILD income:

GVS (Rs. Crore)	FY17	FY18	Growth
NLD	6,615.29	5,184.80	-22%
ILD	143.03	126.54	-12%
Total	**6,758.32**	**5,311.34**	-21%

During FY18, revenue from the GVS segment declined by around 21% to Rs.5,311 crore. Also, PBILDT Margin continues to be low at 6.32% in FY18 (6.13% in FY17). During H1FY19, PBILDT margin improved to 8.07% (6.60% in H1FY18) primarily on account increased share of income from the Middle East operations. However, over the year, the profitability will even out.

Continued focus on GDMS segment
During FY18, revenue share of GDMS segment increased to 65% (59% in FY17). This segment registered a revenue growth of around 6% in FY18 on y-o-y basis. Furthermore, during H1FY19, revenue share of GDMS segment increased to 72% (62% in H1FY18); growth of around 7% 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. However, considering the initial stage of operations in the growth segment (cloud hosting, streaming, managed security services, etc) TCL continues to report losses in this segment. The company has strong order book in the pipeline in the growth segment and the company expects to be EBITA neutral in the growth segment in FY19.

Key Rating Weakness
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. 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.8,933.68 crore as on March 31, 2018 (Rs.9,214 crore as at March 31, 2017). 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 undertaken the process of monetization of its non-core assets to deleverage its balance sheet. TCL also intends to refinance its outstanding debt. Also, the debt levels may increase further considering the probable acquisition of enterprise business of Tata Tele.. CARE has not factored any impact of the above transaction.
TCL had moderate debt coverage indicators with interest coverage of 6.95x in FY18 (7.17x in FY17) and total debt to GCA of 5.85x as on March 31, 2018 (3.00 as on March 31, 2017). TCL has strong liquidity profile with unencumbered cash and cash equivalents of around Rs. 1,008 crores as on March 31, 2018 (Rs. 1,517 crore as on March 31, 2017). 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.

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 has an investment of Rs.1,513.05 crores as on March 31, 2018 (Rs. 1,398.06 crores as on March 31, 2017) in equity shares of Tata Communications Payment Solutions Limited (TCPSL). TCL continue to report losses in the payment solution segment. TCL is in the process of shutting down non profitable ATMs which had impacted the income from the segment; however, the losses have declined.

Analytical approach: The ratings are based on credit enhancement from Tata Communications Limited.

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 – 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.

About the Guarantor - TCL
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, 2018, 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)*	**FY17 (Audited)**	**FY18 (Audited)**
Net Sales	17,620	16,651
Total Operating Income	17,865	16,817
PBILDT	2,633	2,393
PAT (Profit After Tax) After Discontinuing Operations	1,235	-326
GCA (Gross Cash Accruals)	3,067	1,526
Overall Gearing	6.40	26.73
Interest Coverage	7.17	6.95

**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
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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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	-	-	-	104.00	CARE A1+ (SO)
Non-fund-based - ST-Bank Guarantees	-	-	-	50.00	CARE A1+ (SO)
Fund-based - ST-Bank Overdraft	-	-	-	210.00	CARE A1+ (SO)
Fund-based - LT-Cash Credit	-	-	-	300.00	CARE AA (SO); Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	100.00	Provisional CARE AA (SO); Stable / CARE A1+ (SO)
Fund-based/Non-fund-based-Long Term	-	-	-	100.00	CARE AA (SO); Stable
Commercial Paper	-	-	7 days to 364 days	100.00	CARE A1+ (SO)
Commercial Paper	-	-	7 days to 364 days	50.00	Provisional CARE A1+ (SO)
Commercial Paper	-	-	7 days to 364 days	100.00	CARE A1+ (SO)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
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)	1)CARE AA+ (SO) (03-Nov-15)
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)	1)CARE A1+ (SO) (03-Nov-15)
3.	Fund-based - ST-Bank Overdraft	ST	104.00	CARE A1+ (SO)	-	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)	1)CARE A1+ (SO) (03-Nov-15)

Sr.	Name of the	Current Ratings			Rating history			
4.	Non-fund-based - ST-Bank Guarantees	ST	50.00	CARE A1+ (SO)	-	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)	1)CARE A1+ (SO) (03-Nov-15)
5.	Fund-based - ST-Bank Overdraft	ST	210.00	CARE A1+ (SO)	1)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)	1)CARE A1+ (SO) (03-Nov-15) 2)CARE A1+ (SO) (08-Jun-15)
6.	Fund-based - LT-Cash Credit	LT	300.00	CARE AA (SO); Stable	-	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)	1)CARE AA (SO) (03-Nov-15) 2)CARE AA (SO) (24-Sep-15)
7.	Commercial Paper	ST	100.00	CARE A1+ (SO)	-	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)	-
8.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	100.00	Provisional CARE AA (SO); Stable / CARE A1+ (SO)	-	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	CARE A1+ (SO)	-	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+ (SO)	-	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	100.00	CARE AA (SO); Stable	1)CARE AA (SO); Stable (21-Aug-18)	-	-	-

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