Tata Communications Transformation Services Limited

October 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
@Long-term /Short term Bank Facilities – FB/NFB	65.00	**CARE AA- (CE); Stable/CARE A1+ (CE) (Double A Minus [Credit Enhancement]; Outlook: Stable/ A One Plus [Credit Enhancement])**	**Assigned**
@Short-term Bank Facilities – FB	65.00	**CARE A1+ (CE) (A One Plus [Credit Enhancement])**	**Assigned**
Total facilities	**130.00 (Rs. One hundred and thirty crore only)**		

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+; Stable/CARE AA+ (Is); Stable /CARE A1+)

Unsupported Rating [2]	**CARE A+; CARE A1**

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

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The rating of bank facilities of Tata Communication Transformation Services Limited (TCTSL) factors in the credit enhancement in the form of Letter of Comfort (LOC) extended by TCL.

Detailed Rationale & Key Rating Drivers of Tata Communications Limited (TCL)

The long term and short term ratings of the instruments and bank facilities of Tata Communications Limited (TCL) reflects stable revenues and improved operating margins in Global Data Management Service (GDMS) business segment which is further expected to grow in the medium term on account of COVID-19 and ensuing lockdown resulting in work from home model in the enterprise business, dominant position in the Global Voice Segment (GVS) and the financial flexibility it enjoys being a part of the Tata group and strong promoter profile. The ratings also factor in TCL's vast global presence in diversified geographical area, extensive customer base, and its strong financial flexibility which has helped TCL to reduce its average 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, weak capital structure and moderate debt coverage indicators.

Rating Sensitivities (TCL – credit enhanced ratings)

Positive Factors

- Significant improvement in EBITDA margins coupled with improvement in gearing below 0.5 times

Negative Factors

- Any significant additional liabilities than envisaged by the company arising out of ongoing AGR dispute and other regulatory matters resulting in deterioration in financial risk profile.
- Any further erosion of Networth as well as increase in total debt levels coupled with lower than envisaged EBITDA margins of 19%
- Continued losses in subsidiaries and decline in voice business resulting in lower revenue and profitability margins.

Key Rating Drivers of Tata Communications Transformation Services Limited (TCTSL)

[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).*

The unsupported ratings assigned to the above bank facilities of TCTSL derives comfort from the strong support from experienced promoter (TCL), integrated business model of service operations, reputed customer base, worldwide geographical presence and comfortable financial risk profile as well as niche albeit growing presence in telecommunication segment. The rating strengths are, however, tempered by limited track record of operations and exposure to foreign exchange fluctuation risk. Further, during FY20, the company incurred loss of Rs.88 crore primarily since one contract turned onerous during the period. Going forward, ability to maintain profitability margins while expanding the customer base and order book to quickly ramp up the overall scale of operations will be the key rating sensitivities.

Detailed description of the key rating drivers – TCL (Consolidated)

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.

Higher focus on GDMS segment for better margin realization going forward:

During FY20, revenue share of GDMS segment to total consolidated revenue increased to 77% (76% in FY19). This segment registered a revenue growth of 8.40% in FY20 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. During FY20, TCL registered a strong growth in data business partially due to data productivity initiatives in the past few quarters and improvement in performance in Traditional services segment, Positive EBIDTA in Growth services as compared to losses last year. Enterprise customers have been driving the growth both in India as well as international markets with increasing adaption of cloud technology and other services. Profitability margins in the GDMS business has improved over the past three years from 17.2% in FY18 to 22.1% in FY20 mainly on account of strong profitability in growth and innovation segment. Further, on account of ensuing lockdowns due to COVID-19 and prolonged shift towards work from home model which is expected to drive higher IP traffic growth and data volume uptake, growth is likely to continue on upward trajectory in the medium term.

Diversified business risk profile and established customer base

The company has presence in multiple segments like Voice segment, Data segment (which includes Innovation, Growth and Traditional Services), Payment solutions business, transformation services and others. The company has a well-diversified and established customer & supplier base with contribution of top 5 customers at 15% and top 10 suppliers at 25%, during FY20 resulting in low concentration risk. The total revenue generated is well spread across various geographies around the globe mainly including US (~16%), India (~39%), United Kingdom (~7%), Rest of Europe (~11%), Singapore (~5%) and balance from other markets.

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 FY20, TCL handled approximately 23.2 billion minutes as against 30 billion minutes of international voice traffic globally in FY19, a decrease of ~23% over the previous year. 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 FY20, revenue from the GVS segment declined by ~13% to Rs.3376 crore. Further, PBILDT Margin declined to 7.8% in FY20 against 8.7% in FY19. The wholesale international voice business is mature and increasingly commoditized. Performance of voice business of TCL is expected to remain subdued going forward.

Key Rating Weaknesses

Weak capital structure and moderate debt coverage indicators:

The net-worth 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.10667 crore as on March 31, 2020 (Rs. 9,936 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 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 6.99x in FY20 (6.69x in FY19) and total debt to PBILDT of 3.24x as on March 31, 2020 (3.84 as on March 31, 2019). The Networth of the company has deteriorated further on account of PAT level loss of ~Rs.80 crore in FY20 and foreign currency translation reserve losses.
Any large debt funded acquisitions or capex resulting in further weakening of financial risk profile will continue to remain a key monitorable. 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 and Transformation business:
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 12240 ATM as on March 31, 2020 (PY: 12272 ATM). It has closed 3927 ATM over the past 3 years to rationalize ATM portfolio and focus on improving profitability, resulting in EBIDTA of 84 crore in FY20 as against losses of Rs.20.9 crore in FY18. The ATM business has been negatively impacted due to COVID-19 on account of lower footfalls and average daily transactions which is expected to gradually normalize on lifting up and easing of lockdowns. Further, in transformation business, company has recorded EBIDTA level loss (net of intercompany eliminations) of Rs.25 crore during FY20 as against EBIDTA of Rs.129 crore in FY19.

Regulatory risk:
The telecommunication sector in India is surrounded by regulatory uncertainties and TCL remains susceptible to adverse regulatory changes. During Q2FY20, DOT has demanded Rs. 6633 crore from the company towards license fee and spectrum charges on its AGR dues for previous 12 years from FY07 to 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. 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. Further the company believes that these licenses are different from UASL, which was the subject matter of Supreme Court Judgement. The company has responded to DoT denying and disputing the amounts claimed by the DoT in the demand cum Show Cause Notice. The company has not received any response from the DoT after the submission. Further, the company has made provision of Rs.341.64 crore towards license fee payable to DOT during Q4FY20, and the balance amount of Rs.1199.73 crore is part of contingent liability. The ability of TCL to mitigate these regulatory risks will be a key rating factor.

Liquidity: Strong (TCL – Consolidated)
Average collection period in FY20 stood at ~65 days with ~77% of total outstanding debtors within the credit terms of 90 days as on March 31, 2020. TCL has strong liquidity profile with total cash and cash equivalents of around Rs. 1570 crore as on March 31, 2020. The utilization of working capital limits remained moderate during last 12 twelve trailing ended March 2020. The company is expected to generate Gross cash accruals of ~Rs.2400 crore in the next 1 year along with availability of cash and liquid investments which is expected to remain sufficient to meet the debt repayment obligation of about Rs. 2,075 crore for FY21. Also, unutilized working capital limits thereby providing cushion to meet any contingencies if arises. 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 is expected to keep the debt levels at elevated level. Further, being part of Tata Group the company enjoys significant level of financial flexibility and access to capital market as and when required.

Analytical approach:
Credit Enhancement rating: The credit enhanced ratings of the bank facilities of TCTSL is based on the assessment of TCL which has provided letter of comfort for these bank facilities. TCL has been assessed on a consolidated basis on account of operational and financial linkages among entities. The list of entities whose financials have been consolidated in TCL is mentioned in Annexure 3.

Unsupported rating: For the unsupported credit risk assessment of TCTSL, CARE has adopted a consolidated approach wherein financials of all subsidiaries under TCTSL has been considered on account of common management, shared brand name and similar line of business along with financial linkages. Further, linkages with TCL, which are integral to the operations of TCTSL, have also been considered. The list of entities whose financials have been consolidated in TCTSL is mentioned in Annexure 3.1

About the company – TCTSL
Tata Communications Transformation Services (TCTSL), formerly incorporated as VSNL global services (subsidiary of VSNL; in which Tata acquired a controlling stake in 2002) subsequently renamed, is a 100% subsidiary of Tata Communications Ltd. The

company is primarily engaged in business transformation, managed network operations, network outsourcing and consultancy services. The company provides end to end network management for cable and wireless network servicing requirement of customers by providing services like Optical cable fiber (OFC) servicing, network engineering and design, implementation and other support services of major telecom players.
TCTSL is headquartered in Mumbai, India with global offices in Europe, North America and Middle East.

Brief Financials (Rs. crore)*	**FY19 (A)**	**FY20 (A)**
Total Operating Income	1190.93	1366.40
PBILDT	99.69	-67.21
PAT	54.78	-88.88
Overall Gearing (times)	0.00	0.57
Interest Coverage (times)	91.87	NM

A: Audited, NM: Not meaningful
Note: The financials are adjusted as per CARE Standards

About the company – TCL (Credit Enhancement 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 June 30, 2020, the Tata Group held 48.86% stake and GOI holds 26.12% stake.
TCL offers international and national voice and data transmission services, selling and leasing of bandwidth on undersea cable systems, internet dial up and broadband services and other value-added services comprising mainly mobile global roaming and signalling services, transponder lease, telex and telegraph and television up linking. TCL businesses are divided into the following segments: Global Voice Services (GVS), Global Data Management Services (GDMS), payment solutions and real estate.

Brief Financials (Rs. crore)*	**FY19 (A)**	**FY20 (Abr)**
Total Operating Income	16,403.09	17,070.17
PBILDT	2,590.86	3,291.13
PAT	-80.43	-84.83
Overall Gearing (times)	NM	NM
Interest Coverage (times)	6.53	6.99

A: Audited, Abr.: Abridged, NM: Not meaningful
Note: The financials are adjusted as per CARE Standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	65.00	CARE AA- (CE); Stable / CARE A1+ (CE)
Fund-based - ST-Bank Overdraft	-	-	-	65.00	CARE A1+ (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE A+ / CARE A1

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook

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.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	65.00	CARE AA- (CE); Stable / CARE A1+ (CE)	-	-	-	-
2.	Fund-based - ST-Bank Overdraft	ST	65.00	CARE A1+ (CE)	-	-	-	-
3.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE A+ / CARE A1	-	-	-	-

Annexure- 3 List of subsidiaries, associates and joint ventures of TCL getting consolidated (list as on March 31, 2020)

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 SVCS PTE 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%

Sr No.	Name of the company	% holding by TCL
22	TATA COMMUNICATIONS (POLAND) SP. Z 0. 0.	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	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	TC IOT Managed Solutions	100%
56	TCTL Senegal Limited	100%
57	STT GLOBAL DATA CENTERS PRIVATE LTD	26%
58	UNITED TELECOM LIMITED	26.66%
59	SMART ICT SERVICES PRIVATE LIMITED	24%
60	STT Tai Seng Pte Limited (Upto June 13, 2019)	-

Annexure- 3.1 List of subsidiaries, associates and joint ventures of TCTSL getting consolidated (list as on March 31, 2020)

Sr No.	Name of the company	% holding by TCTS
1.	TATA COMMUNICATIONS TRANSFORMATION SERVICES PTE LIMITED (Sinagapore)	100%
2.	Tata Communications Transformation Services (Hungary) Kft.	100%
3.	Tata Communications Transformation Services Senegal Limited	100%
4.	Tata Communications Transformation Services (US) Inc	100%
5.	Tata Communications Transformation Services South Africa (Pty) Ltd	100%

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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