

Tata Communications has evolved its business strategy over the past several years to remain competitive in the telecom market. Slow growth in the traditional voice service business has compelled the company to explore new growth opportunities such as enterprise and data services, and modernise its traditional service offerings. It has also augmented its global telecom infrastructure to support the rising bandwidth demands of customers. Further, the company has expanded its global footprint to growth markets such as Southeast Asia, the Middle East and Africa.

These efforts seem to have paid off. Tata Communications recorded profits for the first time since 2008-09, in the quarter ended June 2013, though this was also supported by the depreciating rupee vis-à-vis the dollar. Also, the company's South Africa-based subsidiary Neotel became profitable in the quarter ended December 2013. Moreover, Tata Communications has been taking several steps to pare its debt to reduce financing costs and further improve its profitability.

### **Current business structure and operational performance**

Tata Communications operates under two business divisions – core and startup. The core business division comprises global voice solutions (GVS) and global data solutions (GDS) while the startup division includes the operations of Neotel and its Nepal-based subsidiary United Telecom. Under GVS, the company provides international wholesale voice carriage and termination services to global telecom service providers and national long distance (NLD) termination services in India. Tata Communications is a market leader in this segment with a share of about 20 per cent.

Under GDS, the company's offerings include high-speed international bandwidth to internet service providers and virtual private networks, leased lines, data centre services, conferencing services, and managed services to enterprise customers.

On the performance front, the GVS business, which accounts for about 50 per cent of the total revenue currently, has been registering marginal growth for the last few quarters due to a decline in NLD voice traffic and limited increase in international long distance (ILD) volumes. This can be attributed to the high uptake of over-the-top applications such as Skype, Facebook and Viber, which are reducing the demand for voice services offered by telecom operators. To overcome the challenges faced by the traditional voice segment, Tata Communications recently launched its mobile VoIP platform to improve the converged communication capabilities of

mobile service operators. The company has set up an international HD voice termination platform, which will enable operators to offer IP-based international HD voice services to their customers. These initiatives will help increase ILD traffic with the enterprise putting more emphasis on the quality of services and reliable connectivity.

Meanwhile, the GDS business continues to perform well on account of the high adoption of managed services, enterprise data services and cloud solutions. The company is also gaining from the large number of contracts that it continues to secure from global enterprises. For instance, UK-based consultancy firm Mott MacDonald has awarded a five-year contract worth \$5 million to Tata Communications for upgrading its telecom infrastructure. Similarly, Cargotec has asked the company to provide wide area network connectivity through multi-protocol label switching (MPLS) technology in its 50 operational markets across the world.

To provide reliable video connectivity to enterprise customers, Tata Communications launched a unified communication and collaboration service, jamvee conferencing, which can be accessed through desktops, laptops, smartphones and tablets.

### **Expanding global footprint**

The company has been ramping up its telecom infrastructure including the Tata Communications' Global Network (TGN) – a terrestrial and submarine fibre cable network aggregating 210,000 km across the world. The company has upgraded the bandwidth capacity of TGN-Atlantic, which links New York and London, to 100 Gbps. Similarly, the TGN-Pacific subsea cable network, which links Japan and the US, has been upgraded to 100 Gbps bandwidth.

Tata Communications has signed a collaboration agreement with Turkey-based operator Turkcell Superonline to set up an MPLS-based point of presence (PoP) in Istanbul. The company has also signed an agreement with Bahrain Telecommunications to set up an MPLS-based PoP at the latter's data centre facility in Manama. These agreements will allow Tata Communications to attract more enterprise customers in Turkey, the Middle East and North Africa.

Further, the company has expanded its data centre footprint to Australia, Germany and

Malaysia through agreements with NEXTDC, Interxion and Pacific Link Telecom respectively.

### **Debt reduction strategies**

Tata Communications has accumulated a huge amount of debt with the acquisition of several companies, including Neotel, in the past few years. The company's debt had increased from \$1,328 million in March 2011 to \$1,428 million in December 2013. The company is now following a multi-pronged strategy to deleverage its balance sheet.

The company has decided to sell its non-core assets such as land properties and business divisions, which offer limited growth opportunities. As part of monetising its non-core assets, Tata Communications sold its land at Nungambakkam in Chennai to the Chennai-based developer, the VGN Group, for Rs 1.92 billion. However, the company continues to face challenges in implementing this strategy. The surplus land owned by the erstwhile Videsh Sanchar Nigam Limited is not a part of the acquisition deal by Tata Communications and is supposed to be demerged into a separate entity. While the cabinet has approved the demerger of the land, authorisation from the Ministry of Communications and IT is pending, thereby delaying the sale of the land, which is estimated to be worth Rs 61.56 billion, as per valuations conducted in 2009. However, Tata Communications is expected to get only 5 per cent of the proceeds from the sale of its land assets.

Tata Communications is reportedly planning to sell its entire 67.3 per cent stake in Neotel, given that the subsidiary was non-profitable until the quarter ended June 2013 and has limited growth potential for fixed line services in South Africa. Industry experts have valued the company's stake in Neotel at \$450 million-\$500 million. If Tata Communications sells the stake, at current industry valuations, the company can reduce its debt by almost a third.

Tata Communications is replacing its high-cost debt with low-cost foreign capital to reduce its cost of borrowing. For instance, the company raised SGD 250 million from the sale of three-year bonds with a coupon of 4.25 per cent in January 2013. Other foreign loans have also enabled Tata Communications to reduce its average cost of borrowing from 7.36 per cent in March 2011 to 4.19 per cent in 2013.

### **Future outlook**

Tata Communications is poised for significant growth in the near term with the increased demand for data and enterprise services. Its upgraded global telecom network makes the company well positioned to serve the growing bandwidth demand of enterprise customers. This will enable Tata Communications to improve its revenues and profit margins. However, the company now increasingly faces currency fluctuation risks due to significant foreign borrowings, which may impact revenue growth.

---

[About Us](#)

[We are Hiring](#)

[Contact Us](#)

[Subscribe](#)

[Privacy Policy](#)

[Advertise](#)

[Terms & Conditions](#)

---

Copyright © 2010, tele.net.in All Rights Reserved

