

Bharat Sanchar Nigam Limited

September 05, 2022

Rating

Instrument	Amount (₹ crore)	Rating ¹	Rating Action
Long-term instruments – Bonds	8,500.00	CARE AAA (CE) [^] ; Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total long-term instruments	8,500.00 (₹ Eight thousand five hundred crore only)		

Details of instrument in Annexure-1.

[^]Backed by credit enhancement in the form of an unconditional and irrevocable guarantee from the Government of India.

Unsupported rating²	CARE BBB [Triple B] [Reaffirmed]
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Note: Unsupported rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers for the credit enhanced debt

The rating of the long-term instrument of Bharat Sanchar Nigam Limited (BSNL) is based on the credit enhancement (CE) in the form of an unconditional and irrevocable guarantee from the Government of India (GoI), supported by a trustee-administered structured payment mechanism ensuring timely debt servicing.

Detailed rationale and key rating drivers of BSNL

The reaffirmation of the Unsupported rating continues to factor in the 100% ownership of the GoI and the presence of nominee directors appointed by the GoI on the board of BSNL, with consistent support demonstrated in the past and expected support in the upcoming years to BSNL [as per the revival plan of Mahanagar Telephone Nigam Limited (MTNL) and BSNL announced by the GoI on October 23, 2019, and subsequently on July 27, 2022]. The rating also considers the strategic importance of the company to the GoI in implementing various telecom infrastructure projects throughout the country and its vast asset base and extensive reach across the nation, which is instrumental in network building in the areas of strategic and national importance.

However, the rating strengths are partially offset by its weak operational and financial performance, heavy interest burden, high human resource cost, and operations in a highly competitive industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any change in the GoI's ownership in BSNL or change in the focus or support from the GoI to BSNL.
- Non-adherence to the trustee-administered structure payment mechanism by any of the parties involved in the transaction.

Detailed description of the key rating drivers

Key rating strengths

Sovereign guarantee on bonds: The bond is backed by an unconditional and irrevocable guarantee, for servicing of the entire issue (both, principal amount as well as the accrued interest), from the GoI, through the Department of Telecommunications [DoT, Ministry of Communications (MoC)].

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

²As 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).

Trustee-administered structured payment mechanism in place: A trustee-administered payment mechanism has been put in place to ensure the timely payment of interest and principal obligations on the bond issue through a tripartite agreement between BSNL, the trustee (SBICAP Trustee Company Limited), and the GoI. The trustee will facilitate the timely servicing of BSNL's obligations by the DoT even if BSNL does not have sufficient funds to do so.

The following is the structured payment mechanism for the bond issue of ₹8,500.00 crore:

Trigger Date	Action Point
(T-30) th day*	Trustees are to inform BSNL and the GoI in writing regarding the due date of the payment of interest and/or principal amount so that the necessary arrangements can be made for meeting the interest payment or principal repayment obligations on the bond.
(T-10) th day*	The designated trust and retention account is to be funded by BSNL to the tune of the interest or principal obligations on the bonds.
(T-8) th day*	If the designated trust and retention account is not funded to the requisite extent by (T-8) th day, the trustees will forthwith invoke the GoI guarantee by sending a notice of invocation to the GoI.
(T-3) rd day*	Last date by which the GoI is to deposit the requisite funds in the designated trust and retention account as per the notice of invocation served by the trustees.

*T being the due date for payment of interest or repayment of principal of the bond. In the event of the mentioned day not being a business day, it will be taken to indicate the next business day.

Wholly owned by the GoI and strategically important nature of operations: BSNL is wholly owned by the GoI, through the DoT, and all the directors of the company are appointed by the President of India, with a few officials and ex-officials of the DoT having vast experience in the telecom industry. Mr. PK Purwar, Chairman & Managing Director (CMD), BSNL and MTNL, has vast working experience in the field of telecommunications and has played an important role in resolving many legacy issues of the company. Furthermore, the GoI continuously monitors the borrowing plans of BSNL, as the company has to get approval for all its borrowing plans from its board, which also includes the GoI nominees as independent directors.

BSNL plays a crucial role in the expansion of telecom services in remote areas, fostering a vendor base in the country (on account of restriction of equipment import), maintaining communication channels along borders and left-wing extremism (LWE) affected areas and disaster relief. Thus, BSNL is considered to be a strategically important organisation and its presence in the telecommunications sector acts as a market balancer. The GoI banks heavily on BSNL for the execution of various government projects of national importance, awarding projects on a nomination basis to the company. Significant projects like the Network for Spectrum (NFS), Bharat Net, Smart Cities, etc, are awarded to BSNL because of its vast resources and expertise in managing the country-wide network. The company was awarded the 2G license for no charge and was the second or third operator in most circles with a start-up spectrum in the 900 MHz band. It was also awarded the 3G and broadband wireless access (BWA) spectrum ahead of other operators. BSNL owns 3G spectrum pan-India, which is used for providing high-speed Internet services. The company is also working on developing a public Wi-Fi network using its optical fibre cable network for providing connectivity to the public on a large scale.

Network reach and vast asset base: BSNL's asset base is of one of the largest among the telecom players in the Indian industry. With urban areas already saturated (overall tele-density at 134.72%, as on June 30, 2022), rural India (overall tele-density at 58.46%, as on June 30, 2022) is expected to account for a large share of the increase in net additions. With the infrastructure in place, the same can be used to provide a host of services at minimal additional cost, clearly putting BSNL at an advantageous position. Furthermore, BSNL has a network of optical fibre cables laid across 250,000 km of the country, providing readily available backhaul support for the government's public Wi-Fi project. Besides, BSNL has a vast network of telecom towers spread across the country, with 67,436 telecom towers as on March 31, 2022.

Support from the GoI: The GoI has demonstrated continuous support to the company by way of awarding projects and revival plans. In FY17, the GoI settled the surrender of the BWA spectrum by BSNL in FY14, amounting to ₹6,725 crore by adjustments made towards spectrum usage charges and license fees (SUC and LF). The GoI, on October 23, 2019, had announced a revival package for BSNL and MTNL, under which, the Voluntary Retirement Scheme (VRS) has been successfully implemented, 4G spectrum allotted in 2019, ₹8,500 crore sovereign guarantee bonds raised, and the monetisation of network assets through the Department of Investment and Public Asset Management (DIPAM) is underway. The company took over the operations of MTNL in October 2021 for achieving operational synergy on a pan-India basis and the merger is expected to be completed by FY24.

Furthermore, to make the company financially viable, the Union Cabinet approved the second revival plan for BSNL and MTNL (The telcos) amounting to ₹1.64 lakh crore on July 27, 2022. The revival plan is aimed at upgrading services, rolling out 4G services, augmenting the telecom network, and de-stressing the balance sheets.

The following are the schemes approved by the Union Cabinet for the telcos:

- Allotment of spectrum administratively: The telcos will be allotted spectrum administratively in the 900/1,800 MHz band (renewal of spectrum for 20 years) amounting to ₹44,993 crore through equity infusion. However, there have been delays in the rollout of 4G services due to 4G import restrictions (as per the GoI's 'Atmanirbhar' scheme).
- Financial support for capex: To meet the projected capex for the next four years of deploying Atmanirbhar 4G technology stack, the GoI will fund capex of ₹22,471 crore. The company has already given the contract for 4G equipment, the testing for which has been completed, and expects the rollout of 4G services by December 2022.
- Viability gap funding (VGF): A consideration of ₹13,789 crore for commercially unviable rural wire-line operations done during FY14 to FY20 will be provided by the GoI in three tranches, the first of which is expected by September 2022. Proceeds from the same will be utilised for the prepayment of high-cost debt.

- Debt structuring: Sovereign guarantee is to be provided for raising long-term bonds amounting to ₹40,399 crore, which will be utilised for restructuring high-cost debt.
- Financial support for AGR dues: AGR dues amounting to ₹33,404 crore to be settled by conversion into equity.
- Merger of Bharat Broadband Network Limited (BBNL) and BSNL: The two companies will be merged to facilitate wider utilisation of the infrastructure.
- Re-issue of preference shares: BSNL will re-issue preference shares of ₹7,500 crore to the GoI[#].

For the above schemes to be implemented, the authorised share capital of BSNL will be increased to ₹150,000 crore to accommodate the spectrum allotment, capex funding, and AGR dues conversion. With the implementation of this revival plan, the GoI expects BSNL to turn profitable by FY26-27.

[#]The company had issued 9% non-convertible non-cumulative redeemable preference shares (NCRPS) worth ₹7,500 crore to the President of India on May 02, 2002, the due date for the redemption of which was May 02, 2022. The company has not redeemed the NCRPS since it is a loss-making company and the NCRPS are proposed to be redeemed by further issuance of redeemable preference share capital, post the approval from the GoI, in line with Section 55 of the Companies Act, 2013. The proposal for the redemption of the NCRPS by further issuance of shares has since been approved by the DoT, Ministry of Telecommunications, GoI. CARE Ratings Limited (CARE Ratings) understands that, as on August 30, 2022, the request for fund allocation has been put up with the Ministry of Finance, the proceeds of which will be utilised for the redemption of NCRPS.

Key rating weaknesses

High human resource cost: BSNL has a large employee base and the staff costs absorb a very high percentage of the revenue of the company. BSNL's staff cost was about ₹7,168.67 crore in FY22 (PY: ₹6,679.16 crore), which is around 38% of its net sales in FY22 (around 43% in FY21). Although there has been a significant decrease in employee costs post the successful implementation of the VRS, the same continues to remain more than 5x the industry average. Overstaffing is a major risk that the company faces and this cost in the case of other operators is around 5-7% of the total operating income (TOI). The same is on account of legacy issues carried forward from the takeover of operations from the erstwhile Central Government Departments of Telecom Services (DTS) and Telecom Operations (DTO), and are likely to remain in the medium term.

High burden of interest and debt repayment: As on March 31, 2022, BSNL had a total debt of ₹43,829.81 crore (PY: ₹41,132.54 crore), including ₹7,500 crore preference shares, which will be reissued as per the latest revival plan and lease liabilities. Payment of interest, as well as repayment of principal, is a challenge for BSNL unless there is GoI support for recasting the debts. The finance costs of the company are also high and stood at ₹2,666.82 crore (16.38% of the TOI) in FY22 as against ₹2,628.37 crore (14.36% of the TOI) in FY21. However, as per the latest revival plan, the company is expected to issue sovereign guaranteed bonds in the near future to refinance high-cost debt, which will reduce the interest costs going forward.

Highly competitive nature of the industry, albeit favourable industry outlook: The Indian telecom sector is the second largest in the world, in terms of the number of subscribers. The sector has witnessed exponential growth over the past few years due to various factors, including affordable tariffs, wider service availability, the rollout of new technology, etc. The average data consumption per subscriber per month has increased rapidly during the past few years and the same stood at 15.80 GB for Q4FY22, backed by the consumers' digital shift post the COVID-19 pandemic. Data has now become a key to the growth of the telecom industry, and thus, any improvement around this factor works well for the industry.

During September 2021, the GoI announced major reforms for the telecom sector to address the liquidity issue of telecom service providers (TSPs), encourage investment, and promote healthy competition in the industry. Furthermore, the industry undertook tariff hikes of up to 25% post the telecom reforms to improve cash flows and provide additional liquidity for capex plans. Additionally, the 5G spectrum auction concluded on August 01, 2022, fetching over ₹1.50 trillion, making it a success. While most bands were sold at reserve price, the auction saw competitive bidding for the 1,800 MHz band for the UP (East) circle.

As per [CARE Ratings' reports](#), considering the large quantum of investments required in the next two to three years for the 5G rollout, the TSPs are likely to witness an increase in leverage levels, with the aggregate debt levels for the major TSPs to touch an estimated ₹6.20 trillion by March 2023. While telcos are likely to charge a premium on 5G rollouts, steep tariff hikes are expected to be announced in their existing 4G plans as well, to recover their large investments made through bidding. For now, the sector has started making the right waves, but the real litmus test will be their ability to raise tariffs in the medium term and retain market shares to support their credit profiles. Going ahead, prospects of growth for the Indian telecom industry are healthy, with the telecom operators upgrading and expanding their network to meet the demand for rising data growth with the evolution of new revenue streams.

Liquidity: Adequate

The liquidity profile of BSNL is adequate and is being supported by the GoI. BSNL had cash and bank balances of ₹2,922.94 crore as on March 31, 2022, against which the debt obligations payable in FY23 are around ₹5,532 crore (excluding lease liabilities of around ₹800 crore). The current ratio stood at 0.42x as on March 31, 2022. The outstanding fund-based working capital borrowings of the company stood at ₹2,354 crore as on August 01, 2022, which is 67.26% of the sanctioned limits of ₹3,500 crore. This provides additional liquidity buffer of around ₹1,200 crore unutilised fund-based limits. Additionally, proceeds from the monetisation of land and tower assets and consideration from the GoI against viability gap funding is expected to aid the liquidity of the company. Furthermore, the company is in the process of raising bonds as per the current revival plan, the proceeds of which will be utilised for the repayment of high-cost debt.

The GoI, through the DoT, has provided a Letter of Comfort (LoC; validity till November 18, 2022) for its bank borrowings stating that it will ensure the timely payment of interest and repayments to banks or financial institutions (FIs) due from BSNL and the bonds are backed by an unconditional and irrevocable guarantee from GoI. Furthermore, there is a presidential approval of up to ₹41,213 crore for bank borrowing and sovereign bonds sanctioned for capex and working capital borrowings to BSNL for FY23.

Analytical approach

Credit-enhanced rating: The rating is based on credit enhancement in the form of an unconditional and irrevocable guarantee from the GoI operating through a trustee-administered structured payment mechanism for the timely transfer of required funds for repayment of principal and interest to a designated account.

Unsupported rating: Standalone; factoring 100% ownership of the GoI.

Applicable criteria

[Policy on Default Recognition](#)

[Factoring linkages government support](#)

[Financial ratios – Non-financial sector](#)

[Liquidity analysis of non-financial sector entities](#)

[Rating credit enhanced debt](#)

[Rating outlook and credit watch](#)

[Mobile service provider](#)

About the company

BSNL was incorporated in September 2000 and is wholly owned by the GoI. BSNL took over the business of providing telecom services and network management from the erstwhile Central Government Departments, namely, DTS and DTO wef October 01, 2000. BSNL has installed quality telecom network in the country and is now focusing on improving it, expanding the network, introducing new telecom services with information and communications technology (ICT) applications in villages. BSNL serves its customers with a wide bouquet of a comprehensive range of telecom services, including fixed line, GSM mobile, national long distance (NLD), international long distance (ILD), Wireless in Local Loop (WLL), narrowband and broadband internet services, virtual private network (VPN), integrated services digital network (ISDN), leased line, intelligent network, and electronic private automatic branch exchange (EPABX) services, etc, pan-India, including inaccessible areas of Siachen glacier and North-Eastern regions of the country. The company received extension on the Unified License in December 2020 for the next 20 years, up to February 2040, which allows the company to operate in all regions including Delhi and Mumbai, post which it took over the operations of MTNL in October 2021. As per data from the Telecom Regulatory Authority of India (TRAI) data, BSNL remained the largest wireline operator in the country, with 7.20 million wireline subscribers (28.17% market share) as on June 30, 2022. It also holds 9.72% market share (111.45 million subscribers) in the wireless segment as on June 30, 2022. BSNL has a total subscriber base of 118.66 million as on June 30, 2022, with a total broadband (wireless + wireline) market share of 3.12%.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
TOI	17,451.80	16,279.06	3,961.03
PBILDT	49.18	-1,765.08	-188.89
PAT	-7,441.12	-6,981.62	-1,555.88
Overall gearing (times)	0.88	1.09	NA
Interest coverage (times)	0.02	NM	NM

A: Audited; UA: Unaudited; NA: Not available; NM: Not meaningful.

Note: The financials have been classified as per CARE Ratings' internal standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds	INE103D08021	September 23, 2020	6.79%	September 23, 2030	8,500.00	CARE AAA (CE); Stable
Unsupported Rating		-	-	-	0.00	CARE BBB

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - ST-Term loan	-	-	-				
2.	Fund-based - ST-Term loan	-	-	-				
3.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (April 03, 2020)	1)CARE AA+ (CE); Stable (December 25, 2019) 2)CARE AAA (SO); Stable (April 18, 2019)
4.	Fund-based - ST-Term loan	-	-	-				
5.	Fund-based - ST-Term loan	-	-	-				
6.	Fund-based - LT/ST-Term loan	LT/ST*	-	-	-	-	1)Withdrawn (April 03, 2020)	1)CARE AA+ (CE); Stable/ CARE A1+ (CE) (December 25, 2019) 2)CARE AAA (SO); Stable/ CARE A1+ (SO) (April 18, 2019)
7.	Unsupported Rating-Unsupported Rating (LT/ST)	LT/ST*	-	-	-	-	1)Withdrawn (April 03, 2020)	1)CARE BBB; Stable/ CARE A3 (December 25, 2019)
8.	Bonds	LT	8500.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (September 06, 2021)	1)CARE AAA (CE); Stable (September 15, 2020)	-
9.	Unsupported Rating	LT	0.00	CARE BBB	-	1)CARE BBB (September 06, 2021)	1)CARE BBB (September 15, 2020)	-

*T/ST: Long term/short term

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	NA
B. Non-financial covenants	NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Bonds	Simple
2	Unsupported Rating	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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