

Mahanagar Telephone Nigam Limited (Revised)

October 07, 2021

Ratings

Facilities/Instruments*	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities [®]	9,810.34 (Reduced from 11,350.00)	CARE AA+ (CE); Stable [Double A Plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Long-term / Short-term Bank Facilities [®]	4,754.66 (Enhanced from 2,640.00)	CARE AA+ (CE); Stable / CARE A1+ (CE) [Double A Plus (Credit Enhancement); Outlook: Stable/ A One Plus (Credit Enhancement)]	Reaffirmed
Short-term Bank Facilities [®]	7,435.00 (Reduced from 8,010.00)	CARE A1+ (CE) [A One Plus (Credit Enhancement)]	Reaffirmed
Total Bank Facilities	22,000.00 (Rs. Twenty two thousand crore only)		
Bonds [^]	3,768.97	CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Bonds [^]	6,500.00	CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Non-convertible Debentures [^]	2,980.00	CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Non-convertible Debentures [^]	765.00	CARE AAA (CE); Stable [Triple A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total Long-term Instruments[#]	14,013.97 (Rs. Fourteen thousand thirteen crore and ninety seven lakh only)		

* Details of instruments in Annexure I

[®] Backed by credit enhancement in the form of 'Letter of Comfort' (LoC) from the Department of Telecommunications (DoT) under the Ministry of Communications, Government of India (GoI).

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

[#] Note: All rated instruments are Non-Convertible Bonds in the nature of Debentures.

Unsupported Ratings ²	CARE BBB / CARE A3 (Triple B / A Three) [Reaffirmed]
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Note: Unsupported Ratings do not factor in the explicit credit enhancement
Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The reaffirmation of the rating assigned to the instruments (Bonds and Non-Convertible Debenture (NCD) issues) of Mahanagar Telephone Nigam Limited (MTNL) is based on credit enhancement in the form of unconditional and irrevocable guarantee from the GoI, supported by a trustee-administered structured payment mechanism ensuring timely debt servicing. Furthermore, the reaffirmation of the ratings assigned to the bank facilities of the company are based on credit enhancement in the form of LoC (Letter No. 17-5/2010-SU-II dated October 12, 2019) from the DoT, GoI.

The ratings continue to factor in majority holding of the GoI (56.25% holding as on June 30, 2021), indicating its strategic importance for the GoI, demonstrated support in the past and expectation of continued support in the future from the GoI (as per revival plan of MTNL and BSNL announced by the GoI on October 23, 2019).

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/ MIRS/ 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).

Timely renewal of the LoC is a prerequisite for the rated facilities as stipulated in the terms of sanction. Thus, going forward, on time renewal of the LoC during the tenure of rated facility, continued support from the GoI and MTNL's ability to manage its liquidity position constitute the key rating sensitivities.

The unsupported ratings of the company factor the majority ownership held by GoI and the presence of nominee directors appointed by the GoI on the board of MTNL. The ratings also factor in the Navratna Status given to the company. However, the rating strengths are partially offset by MTNL's weak operational and financial performance, high manpower cost albeit rationalization through employees opting for Voluntary Retirement Scheme (VRS) and highly competitive nature of the telecom sector.

Rating sensitivities

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

- Any delay in renewal of LoC.
- Non-adherence to the trustee-administered structured payment mechanism by any of the parties in the transaction.
- Any change in the focus/support from the GoI to MTNL.

Detailed description of the key rating drivers

Key Rating Strengths

Credit enhancement for the Bonds/NCDs in the form of unconditional and irrevocable guarantee from the GoI

The Bond/NCD issues are backed by unconditional and irrevocable guarantee for the servicing of the entire issue (both principal amount as well as the accrued interest) from the GoI through the DoT.

Trustee-administered structured payment mechanism, designed to ensure full and timely payments

A trustee-administered structured payment mechanism is in place to ensure the timely payment of interest and principal obligations of the Bond/NCD issues through a tripartite agreement between MTNL, Trustee (M/s SBICAP Trustee Company Limited) and the GoI. The trustee will facilitate timely servicing of MTNL's obligations by the DoT even if MTNL does not have sufficient funds to do so.

Following is the structured payment mechanism for the Bond issue of size Rs.3,768.97 crore (fully subscribed) and the NCD issue of Rs.1,000 crore (subscribed Rs.765 crore):

Trigger Date	Action Point
(T-30)th day*	Trustees to inform MTNL and the GoI in writing regarding the due date of the payment of interest and/or principal amount so that the necessary arrangements could be made for meeting the interest payment/repayment of obligations on the instrument.
(T-10)th day*	The designated Trust and Retention account is to be funded by the GoI to the tune of the interest/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 as above, the Trustees shall forthwith invoke the GoI Guarantee by sending a Notice of Invocation to the GoI.
(T-1)st day*	Last date by which GoI to deposit requisite funds in the designated Trust and Retention Account as per the Notice of Invocation.

* T being the due date for payment of interest/repayment of principal. In the event of mentioned day not being a Business Day, it would be taken to indicate the next Business Day.

Following is the structured payment mechanism for the NCD issue of Rs.3,000 crore. (subscribed Rs.2,980 crore):

Trigger Date	Action Point
(T-30)th day*	Trustees to inform MTNL and the GoI in writing regarding the due date of the payment of interest and / or principal amount so that the necessary arrangements could be made for meeting the interest payment / repayment of obligations on the instrument.
(T-10)th day*	The designated Trust and Retention account is to be funded by MTNL to the tune of the interest / principal obligations on the Bonds.
(T-8)th day*	If the designated Trust and Retention account is not funded to the requisite extent latest by (T-8)th day, the Trustee shall forthwith invoke the GoI guarantee by sending a Notice of Invocation to GoI.

Trigger Date	Action Point
(T-1)st day*	Last date by which GoI to deposit requisite funds in the designated Trust and Retention Account as per the Notice of Invocation.

* T being the due date for payment of interest/repayment of principal. In the event of mentioned day not being a Business Day, it would be taken to indicate the next Business Day.

Following is the structured payment mechanism for the Bond issue of Rs.6,500.00 crore (fully subscribed):

Trigger Date	Action Point
(T- 30)th day*	Trustees to inform MTNL and the GoI in writing regarding the due date of the payment of interest and / or principal amount so that the necessary arrangements could be made for meeting the interest payment / principal repayment obligations on the Bond.
(T-10)th day*	The designated Trust and Retention account is to be funded by MTNL to the tune of the interest/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 shall forthwith invoke the GoI Guarantee by sending a Notice of Invocation to GoI.
(T-3)rd day*	Last date by which GoI to deposit 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/repayment of principal. In the event of mentioned day not being a Business Day, it would be taken to indicate the next Business Day.

LoC from the DoT, GoI (for Bank Facilities)

The DoT has provided a LoC, for ensuring timely repayment of MTNL's debt obligations, which has to be renewed periodically every three years. Currently, the validity of the LoC is up to October 26, 2022. The LoC is a credit enhancement whereby the GoI owes the responsibility for the timely payment of MTNL's repayment obligations to Banks/FIs. Therefore, timely renewal of the LOC throughout the tenure of the rated facility is a key rating monitorable.

Majority ownership of the GoI

MTNL is one of the only two state owned telecom service providers in India along with Bharat Sanchar Nigam Limited (BSNL, bond rated 'CARE AAA (CE); Stable'). The GoI holds majority stake in MTNL (56.25% as on June 30, 2021) and balance is held by public. The company enjoys 'Navratna Status', a status that gives greater autonomy to the Central Public Sector Enterprises (CPSEs) in their investment and capital expenditure decisions. Such a status also aims at facilitating expansion of its operations both in the domestic and global markets.

Support from the GoI

Keeping in mind the legacy as well as strategic importance of MTNL, the GoI, in October 2019, announced the revival plan for MTNL and BSNL and has meanwhile, continued to support the company's funding requirements through the issuance of LoC. Update on the revival plan as on September 29, 2021, is as follows:

- Under the revival plan, 14,387 employees of the company opted for the VRS, the retirement benefits for which, have been paid by the GoI.
- With the approval of the in-principle merger of BSNL and MTNL, BSNL is presently handling the operations of MTNL as an outsourced agency since September 01, 2021, after obtaining license to operate PAN India in all 22 circles. The major focus of BSNL will be to expand the 4G network of the company with new equipment and introduce competitive tariff and marketing plans to attract customers.
- MTNL had raised Rs.6,500 crore by way of issuance of Bonds, backed by the sovereign guarantee of the GoI.
- Certain identified land assets of MTNL are expected to be monetized in order to maximize the returns and support in reducing the debt levels, which are already underway post the approval from the GoI.
- For the allocation of 4G spectrum to MTNL, the GoI will be infusing equity in BSNL in place of MTNL.

Key Rating Weaknesses

High human resource cost albeit reduction through employees opting for VRS

Earlier, MTNL had a large employee base and the staff cost absorbed a very high percentage of the revenue of the company. However, with the implementation of the VRS, as per the revival package, the employee cost has reduced

significantly in FY21 (refers to the period April 1 to March 31) with the company currently having less than 4,000 employees. MTNL's staff cost was about Rs.495.95 crore in FY21 (around 29% of its TOI) as compared with Rs.2,215.30 crore in FY20 (around 102% of its TOI). Around 14,387 employees opted for the VRS and were relieved as on January 31, 2020, bringing down the staff from earlier 18,710 employees, resulting in savings of more than Rs.1,700 crore. This has resulted in the company being PBILDT positive in FY21. The entire amount of VRS has been borne by the GoI and MTNL is not liable to pay any amount. However, overstaffing still remains a major risk. MTNL has a huge employee base, inherited from the DoT, which has resulted in legacy issues. The staff cost in case of other operators is around 5% of their total operating income which is around 29% for MTNL.

Highly competitive nature of the industry

The Indian telecom industry is the second largest in the world in terms of the number of subscribers. The industry has witnessed exponential growth over the past few years due to affordable tariffs, wider service availability, roll out of new facilities and services such as 3G and 4G, evolving consumption patterns of subscribers, and conducive regulatory environment. 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.

Despite an increase in the average revenue per user (ARPU), backed by price hikes undertaken by the telcos for their prepaid users, it is estimated to have declined to about Rs.96 in Q4FY21 due to the application of bill & keep regime (January 01, 2021 onwards) from earlier Interconnect Usage Charges (IUC) regime. Subsequently, the ARPU for FY21 is estimated to have averaged at Rs.96, an increase of 20.6% on a y-o-y basis.

In a much-awaited relief for the telecom industry, the GoI, on September 15, 2021, announced major reforms aimed at addressing the liquidity issue of the TSPs (Telecommunication Service Provider), encouraging investment and to promote healthy competition in the industry. These reforms, however, are expected to provide only a temporary relief to the players with the ability of the TSPs to undertake tariff hikes in the near to medium term being the real litmus test.

Liquidity: Adequate

The liquidity profile of MTNL is adequate and is being supported by the GoI. Although there have been continuous operational losses in the past, the liquidity position of the company has improved, post conclusion of VRS, resulting in savings of around Rs.1,700 crore in terms of employee cost and reporting of positive PBILDT during FY21. MTNL had cash and bank balances of Rs.103.76 crore as on March 31, 2021, against which the debt obligations payable in FY22 are Rs.1,573.58 crore (including lease liabilities of Rs.71.08 crore). The current ratio stood at 1.00x as on March 31, 2021. Additionally, proceeds from the monetization of assets are expected to aid the liquidity of the company.

GoI, through the DoT, has provided LoC for the company's borrowings stating that the GoI will ensure timely payment of interest and repayments to banks/FIs due from MTNL. Furthermore, there is presidential approval of Rs.25,000 crore for long-term borrowings and Rs.11,500 crore for short-term borrowings for the capex and working capital requirements of the company.

Analytical approach:

Sovereign Guarantee Bonds/NCDs: Credit enhancement in the form of unconditional and irrevocable guarantee from the GoI operating through a trustee-administered structured payment mechanism for the timely transfer of the required funds for repayment of principal and interest to a designated account. The rating also factors in the GoI's majority stake (56.25% of the equity) in MTNL.

Bank facilities: Credit enhancement in the form of LoC from the DoT, GoI. The rating also factors in the GoI's majority stake (56.25% of the equity) in MTNL.

Unsupported Ratings: Standalone, and factoring majority ownership of the GoI in MTNL.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Rating Credit Enhanced Debt](#)

[Rating Methodology: Notching by factoring linkages with Government](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology - Mobile Service Providers](#)

About the company

MTNL was incorporated by the Govt in 1986 with the aim of upgrading the quality of telecom services, expanding the telecom network and introducing new services for India's key metros, Delhi and Mumbai. MTNL was given Navratna status in 1997 and was listed on New York Stock Exchange in 2001. MTNL is providing a host of telecom services that include fixed telephone service, GSM, Internet, Broadband, ISDN and Leased Line services. MTNL has been the first to launch some of the latest telecom technologies in the country like ADSL2+ & VDSL2 in broadband, IPTV on MPEG4 technology, VOIP and 3G Mobile service. MTNL is also providing telecommunication services beyond Indian boundaries through its joint ventures (JV) and subsidiaries. MTNL is present in Nepal through its JV, United Telecom Limited (UTL), and in Mauritius through its 100% subsidiary, Mahanagar Telephone Mauritius Limited (MTML). However, after obtaining unified license for all 22 circles in India, the business operations of MTNL is being handled by BSNL as its outsourced agency, since September 01, 2021. BSNL's major focus will be to expand the 4G network with new equipment and introduce competitive tariff and marketing plans to attract customers. As on June 30, 2021, MTNL had a total subscriber base of 6.15 million consisting of 3.29 million wireless subscribers (0.28% market share) and 2.86 million wireline subscribers (13.18% market share), as reported by TRAI.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2,182.52	1,737.84
PBILDT	-824.36	484.13
PAT	-3,695.68	-2,461.81
Overall gearing (times)	NM	NM
Interest Coverage (times)	NM	0.23

A: Audited; NM: Not Meaningful

Note: The financials are classified as per CARE's internal 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

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

Complexity level of 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 (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	Nov 2026	9810.34	CARE AA+ (CE); Stable
Term Loan-Short Term	-	-	-	-	983.00	CARE A1+ (CE)
Fund-based - ST-Bank Overdraft	-	-	-	-	6374.00	CARE A1+ (CE)
Term Loan-LT/ST	-	-	-	-	4754.66	CARE AA+ (CE); Stable / CARE A1+ (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	-	-	CARE BBB / CARE A3
Non-fund-based - ST-BG/LC	-	-	-	-	78.00	CARE A1+ (CE)
Debentures-Non-Convertible Debentures	INE153A08014	Mar 28, 2013	8.57%	Mar 28, 2023	2980.00	CARE AAA (CE); Stable
	INE153A08022	Dec 05, 2013	9.38%	Dec 05, 2023		
Debentures-Non-Convertible Debentures	INE153A08030	Mar 26, 2014	9.39%	Mar 26, 2024	765.00	CARE AAA (CE); Stable
Bonds	INE153A08048	Nov 19, 2014	8.24%	Nov 19, 2024	3768.97	CARE AAA (CE); Stable
	INE153A08055	Nov 19, 2014	8.28%	Nov 19, 2024		

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
	INE153A08063	Nov 19, 2014	8.24%	Nov 19, 2024		
	INE153A08071	Nov 28, 2014	8.29%	Nov 28, 2024		
Bonds	INE153A08089	Oct 12, 2020	7.05%	Oct 11, 2030	6500.00	CARE AAA (CE); Stable
	INE153A08097	Dec 21, 2020	6.85%	Dec 20, 2030		

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	2980.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (08-Jan-21) 2)CARE AAA (CE); Stable (03-Apr-20)	-	1)CARE AAA (SO); Stable (01-Oct-18)
2	Debentures-Non Convertible Debentures	LT	765.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (08-Jan-21) 2)CARE AAA (CE); Stable (03-Apr-20)	-	1)CARE AAA (SO); Stable (01-Oct-18)
3	Bonds	LT	3768.97	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (08-Jan-21) 2)CARE AAA (CE); Stable (03-Apr-20)	-	1)CARE AAA (SO); Stable (01-Oct-18)
4	Fund-based - LT-Term Loan	-	-	-	-	-	-	-
5	Fund-based - LT-Bank Overdraft	-	-	-	-	-	-	-
6	Fund-based - ST-Term loan	-	-	-	-	-	-	-
7	Fund-based - LT-Term Loan	-	-	-	-	-	-	-
8	Term Loan-Long Term	LT	9810.34	CARE AA+ (CE); Stable	-	1)CARE AA+ (CE); Stable (08-Jan-21) 2)CARE AA+ (CE); Stable (03-Apr-20)	1)CARE AA+ (CE); Stable (25-Dec-19)	1)CARE AAA (SO); Stable (11-Mar-19)
9	Term Loan-Short Term	ST	983.00	CARE A1+ (CE)	-	1)CARE A1+ (CE) (08-Jan-21) 2)CARE A1+ (CE) (03-Apr-20)	1)CARE A1+ (CE) (25-Dec-19)	1)CARE A1+ (SO) (11-Mar-19)
10	Fund-based - ST-Bank Overdraft	ST	6374.00	CARE A1+ (CE)	-	1)CARE A1+ (CE) (08-Jan-21) 2)CARE A1+ (CE) (03-Apr-20)	1)CARE A1+ (CE) (25-Dec-19)	1)CARE A1+ (SO) (11-Mar-19)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
11	Term Loan-LT/ST	LT/ST	4754.66	CARE AA+ (CE); Stable / CARE A1+ (CE)	-	1)CARE AA+ (CE); Stable / CARE A1+ (CE) (08-Jan-21) 2)CARE AA+ (CE); Stable / CARE A1+ (CE) (03-Apr-20)	1)CARE AA+ (CE); Stable / CARE A1+ (CE) (25-Dec-19)	1)CARE AAA (SO); Stable / CARE A1+ (SO) (11-Mar-19)
12	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB / CARE A3	-	1)CARE BBB / CARE A3 (08-Jan-21) 2)CARE BBB; Stable / CARE A3 (03-Apr-20)	1)CARE BBB; Stable / CARE A3 (25-Dec-19)	-
13	Bonds	LT	6500.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (08-Jan-21) 2)CARE AAA (CE); Stable (25-Sep-20)	-	-
14	Non-fund-based ST-BG/LC	ST	78.00	CARE A1+ (CE)	-	1)CARE A1+ (CE) (08-Jan-21)	-	-

LT: Long-term; ST: Short-term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds	Simple
2.	Debentures-Non-Convertible Debentures	Simple
3.	Fund-based - ST-Bank Overdraft	Simple
4.	Non-fund-based - ST-BG/LC	Simple
5.	Term Loan-Long Term	Simple
6.	Term Loan-LT/ST	Simple
7.	Term Loan-Short Term	Simple
8.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Note on complexity levels of the rated instrument: 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@careratings.com for any clarifications.

Annexure 5: Bank Lender Details for MTNL

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

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