Mahanagar Telephone Nigam Limited

January 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities^	11,350.00	**CARE AA+ (CE); Stable [Double A Plus (Credit Enhancement); Outlook: Stable]**	**Reaffirmed**
Long Term / Short Term Bank Facilities^	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^	80.00	**CARE A1+ (CE) [A One Plus (Credit Enhancement)]**	**Reaffirmed**
Short Term Bank Facilities^	7,930.00	**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 Lakhs Only)**		

Details of instruments/facilities in Annexure-1
^Backed by the Credit enhancement in the form of 'Letter of Comfort' (LoC) from Department of Telecom under Ministry of Communication and Information Technology, Government of India (GOI).
^^Backed by the Credit enhancement in the form of unconditional and irrevocable guarantee from Government of India (G0I).

Unsupported Rating [1]	**CARE BBB-; CARE A3**

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

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Mahanagar Telephone Nigam Limited (MTNL) is based on credit enhancement in the form of Letter of Comfort (Letter No. 17-5/2010-SU-II) from Department of Telecom under Ministry of Communication and Information Technology, Government of India (GOI).

[1] *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 ratings assigned to the Non-convertible debenture (NCD) issues of Mahanagar Telephone Nigam Limited (MTNL) are based on the credit enhancement in the form of unconditional and irrevocable guarantee of Government of India (GOI), supported by a structured payment mechanism.
The reaffirmation of the ratings assigned to bank facilities and NCD Issues of MTNL, continues to factor in majority holding of Government of India (GoI (56.25% holding as on September 30, 2020), continuous support in the past & expected support in the upcoming years to MTNL from GoI (as GoI had announced revival plan of MTNL and BSNL on October 23, 2019) and strategic importance of MTNL for GoI.
Going forward, the continued support from GoI and the ability of the company to manage its liquidity position would be the key rating sensitivities.
The "LOC" is issued on renewal basis and the rating is conditional on timely renewal of the "LOC" during the tenure of the rated facilities as stipulated in the terms of sanction of the rated bank facilities. Thus, the timely renewal of the LOC during the tenure of rated facility would be the key rating sensitivity.

The standalone rating considers the majority shareholding of GoI and the presence of nominee directors appointed by GoI on the board of MTNL. The ratings also factors in the Navratna Status given to the company. However, these rating strengths are partially offset by its weak operational and financial performance as reflected in its continuing losses over the past few years.

MTNL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. The moratorium has been approved by the bankers of MTNL. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Rating Sensitivities
Negative Factors

- Any change in GoI's ownership in MTNL or change in the focus/support from GoI to MTNL.
- Any delay in renewal of LOC
- Non-adherence to the trustee administered structure payment mechanism by any of the parties to the transaction.

Detailed description of the key rating drivers
Key Rating Strengths
Credit enhancement for the Non-Convertible Debentures in the form of Unconditional and irrecoverable guarantee from GoI
The NCD issues are backed by unconditional and irrevocable guarantee for servicing of the entire bond issue (both principal amount as well as the accrued interest) from GoI through the Department of Telecommunications (DoT, Ministry of Communication & Information Technology).

Trustee-administered structured payment mechanism, designed to ensure full and timely payment to bond holders (for Non-Convertible Debentures)
A trustee-monitored payment mechanism is in place to ensure the timely payment of the interest & principal obligations on the bond issue through a tripartite agreement between MTNL, Trustee (SBI Capital Markets Ltd. and SBICAP Trustee Company Limited) and GoI. The trustee will facilitate timely servicing of MTNL's obligations by DoT even if MTNL doesn't have sufficient funds to do so.
Following is the structured payment mechanism for the NCD issue of Rs.3768.97 crore and NCD issue size of Rs.1000 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 Government of India 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 GOI.
(T -1) 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 next Business Day.*

Following is the structured payment mechanism for the NCD issue size of Rs.3000 crore. (Subscribed Rs.2980 crore):

Trigger Date	Action Point
T-10*	The trustee shall create & maintain a Designated Account and the same shall be funded adequately by MTNL, latest 10 (Ten) days prior to the due date to the tune of the principal and /or accrued interest repayment obligation of the Bonds. (T being the due date for payment/repayment of Interest and/or Principal). If the account of the trustee is not funded to the requisite extent by T-10 days, it shall constitute an Event of Default on the part of MTNL.
T-8	In case the Designated Account is not funded by MTNL to the requisite extent latest by 8 (Eight) days prior to the due date of payment/repayment of interest and/or principal amount, the Trustee shall forthwith invoke the DoT, GoI guarantee by sending notice of invocation of the Guarantee to DoT, GoI.
T-1	DoT, GoI shall without demur, reservations and recourse at least 1 (one) day before the due date, deposit/ transfer the principal and /or accrued interest amount in the designated account as per the Notice of invocation of guarantee by the Trustee.

** 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 next Business Day.*

Following is the structured payment mechanism for the bond issue of Rs. 6,500.00 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 / 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) 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 of the bond. In the event of mentioned day not being a Business Day, it would be taken to indicate next Business Day.
As the company issued sovereign guarantee bonds earlier as well which also have trustee-monitored payment mechanism, this mechanism has already been tested. The key differences in the new mechanism are:

1. Last date by which GoI is to deposit requisite funds in the designated Trust and Retention Account as per the Notice of Invocation served by the trustees has now been moved up to T-3rd day, in the earlier mechanism it was T-1.

Letter of Comfort from Department of Telecom under Ministry of Communication and Information Technology, Government of India (GOI) (for Bank Facilities)
Department of Telecom, Government of India (GoI) has provided a Letter of Comfort (LOC) for ensuring timely payment of MTNL's debt obligations. LOC was initially issued on October 27, 2010 for the period of three years from October 27, 2010 to October 26, 2013. The same was subsequently renewed on June 23, 2013 for further period of three years from October 27, 2013 to October 26, 2016, on February 10, 2017 for the period from October 27, 2016 till October 26, 2019 and on October 12, 2019 for further period of three years from October 27, 2019 to October 26, 2022. The LOC is a credit enhancement whereby GOI owes responsibilities of timely payment of interest and repayments to Banks/FIs due from MTNL's loans. LOC states that "DoT/ GoI will ensure that MTNL meets its payment obligation on Loan/ Debt in a timely manner and DoT will continue to support its effort to strengthen the company." 'LOC' is issued on renewal basis and the timely renewal of the LOC during the tenure of the rated facility would be the key rating sensitivity.

Majority ownership of Government of India
MTNL is one of the only two state owned telecom service provider in India along with Bharat Sanchar Nigam Limited (BSNL). Government of India (GoI) holds the majority stake in MTNL (56.25% as on September 30, 2020). The company enjoys 'Navratna Status', a status that gives greater autonomy to 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. The rest of the 43.75% of the shareholding is held by the public.

Support from Government of India (GoI)

Keeping in mind the legacy as well as strategically important nature of MTNL, GoI is looking at various options to work out long term revival strategy of the Company and has meanwhile continued to support the company's funding requirements through issuance of Letter of Comfort. Department of Telecom, Government of India (GoI) has provided Letter of Comfort (LOC) for ensuring timely payment of MTNL's bank borrowings.

Further, GoI on 23rd Oct 2019 had announced the revival package for BSNL & MTNL. Under the revival plan, a VRS scheme is approved by the Government with 14387 employees opting for VRS. The ex gratia payout is also to be borne by the GOI. Also, for the allocation of 4G spectrum to MTNL, GoI will be infusing preference shares in MTNL which in turn will be used to pay the Spectrum charges to the GoI. The Government has also accorded its approval to issue bonds to the tune of Rs. 6,500 Cr. backed by Sovereign Guarantee from GOI for MTNL (which the company has successfully raised) and land assets of MTNL will also be monetized in order to maximize the returns & support in reducing the debt levels. GOI has also agreed in principle for the merger of BSNL & MTNL for achieving operational synergy on PAN India basis.

Moderate Liquidity

The liquidity profile of MTNL is adequate. The liquidity & financial profile of MTNL is being supported by GoI. There have been continuous operational losses in the past on account of subdued industry scenario, low ARPU due to ongoing price war after the entry of RJio, and various schemes offered by MTNL to sustain its market shares and to further attract new customers and intense competition within the industry. MTNL has a cash & bank balance of Rs. 66.58 crore as on September 30, 2020 (Rs. 142.68 crore as on March 31, 2020). MTNL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. After availing the moratorium, the debt obligations which are payable in FY21 are for Rs 9400.33 crore (including lease obligations). The current ratio stood at 0.50x as on March 31, 2020. Further, the company's liquidity position is expected to improve post conclusion of VRS resulting in savings of ~Rs. 1700 crore in terms of employee cost. Additionally, the proceeds from monetization of assets will aid the liquidity of the company.

GoI through Department of Telecom (DoT) has provided Letter of Comfort for its bank borrowings stating that GOI will ensure timely payment of interest and repayments to Banks/FIs due from MTNL. Further, an amount of Rs. 25,000 crore has been approved in the annual general meeting of the company for bank borrowing & sovereign bonds sanctioned for capex & working capital borrowings in FY21, for which the presidential approval has been received on September 21, 2020. The bank borrowings are backed by LOC from GoI and the sovereign bonds are backed by unconditional & irrevocable guarantee from GoI.

Key Rating Weaknesses

High employee cost leading to losses

MTNL has large employee base and the staff cost absorbs a very high percentage of the revenue of the company. MTNL had a huge employee force which it inherited from Department of Telecom (DoT). Overstaffing is a major risk which the Company faces and this cost in case of other operators is around 5% of total operating income. The large employee base of MTNL is mainly due to legacy issues, as many of its employees were inherited from DoT. GoI, however as a part of revival plan of MTNL, had approved a VRS scheme with around 14500 employees opted for VRS (out of employee strength of around 19,500 as on November 30, 2019).

MTNL's staff cost was about Rs.2215.30 crore in FY20 (Rs. 2437.46 crore in FY18) which is around 102% of its total operating income in FY20 (around 95% in FY19). The decrease in the staff cost in FY20 is on account of the employees who opted for VRS from Jan 2020. Furthermore, the employee costs have already reduced to Rs. 276.69 crore (31% of total income) in H1FY21 from Rs. 1237.15 crore (110% of total income). Approximately 14,387 employees have already opted for VRS, bringing down the staff cost by ~Rs. 1700 crore. This has helped the company to be EBITDA positive for the 2 consecutive quarters of FY21. The entire amount of VRS to be given to these employees shall be borne by the GoI budgetary allocation & MTNL is not liable to pay any amount.

Highly competitive nature of the industry

The Indian Telecom sector continues to witness a lot of volatility and intense competitive pressures which has led to the much awaited consolidation in the sector. The sector is now dominated by three strong private players with a combined market share of around 90% while their profitability continues to remain under pressure as they continue to offer lucrative tariff plans to hold on to their existing subscriber base and acquire new subscribers. However, there has been significant improvement in the ARPU levels, data usage and charges in Q1FY21. The average data usage touched an all-time high of 12.2 GB in the quarter ending June 2020 on account of growth in data consumption backed by increased use of online applications, new norms of 'work from home' and 'higher use of digital platforms' on account of Covid-19 pandemic. Also, average data charges for per GB data increased by 37% to Rs.10.6 aided by price hikes. It is to be noted that revenue from data usage now accounted for a much larger share of 77% in the total revenues from subscribers in the quarter ending June 2020 as compared to the share of 22% for the quarter June 2016 quarter (4 years ago when Reliance Jio had not entered the telecom market). The low-priced service and increased use of online applications added more subscribers to the broadband base. The broadband subscriber base grew by 16.5% y-o-y to 716 million at the end of August 2020. The telephone subscriber base, however, declined by 2% to 1,168 million as on August 2020. The overall Tele-density in India decreased from 87.37 in quarter ended March 2020 to 85.85 in quarter ended June 2020.

Analytical approach: Bank facilities: Credit enhancement in the form of 'Letter of Comfort' from Department of Telecom under Ministry of Communication and Information Technology, Government of India (GOI). The rating also factors in the GoI's majority stake (56.25% of the equity) in MTNL.
Sovereign Guarantee Bonds & NCD Issue: Credit enhancement in the form of unconditional and irrevocable guarantee from Government of India (GOI) operating through a trustee-administered structured payment mechanism for 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.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Notching by factoring linkages with Government
Criteria for Rating Credit Enhanced Debt
Rating Methodology-Mobile Service Providers
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Mahanagar Telephone Nigam Limited (MTNL) was incorporated by Government of India (GoI) 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 has been given Navratna status in 1997 and was listed in New York Stock Exchange in 2001.
Presently, 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.
As on September 30, 2020, MTNL has total subscriber base of 6.37 million consisting of 3.34 million wireless subscribers (0.29% market share) and 3.03 million wireline subscriber base (15.10% market share). MTNL is also providing telecommunication services beyond Indian boundaries through its Joint Ventures and Subsidiaries. MTNL is present in Nepal through its Joint Venture United Telecom Limited (UTL) and in Mauritius through its 100% subsidiary Mahanagar Telephone Mauritius Limited (MTML).

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

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2575.37	2182.52
PBILDT	-733.62	-826.69
PAT	-3390.19	-3695.68
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	NM

A: Audited; NM: Not meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN Number	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term		-	-	-	11350.00	CARE AA+ (CE); Stable
Term Loan-Short Term		-	-	-	1100.00	CARE A1+ (CE)
Fund-based - ST-Bank Overdraft		-	-	-	6830.00	CARE A1+ (CE)
Term Loan-LT/ST		-	-	-	2640.00	CARE AA+ (CE); Stable / CARE A1+ (CE)
Un Supported Rating-Un Supported Rating (LT/ST)		-	-	-	0.00	CARE BBB / CARE A3
Non-fund-based - ST-BG/LC		-	-	-	80.00	CARE A1+ (CE)
Debentures-Non Convertible Debentures	INE153A08014	March 28, 2013	8.57%	March 28, 2023	1005.00	CARE AAA (CE); Stable
Debentures-Non Convertible Debentures	INE153A08022	December 05, 2013	8.57%	December 05, 2023	1975.00	CARE AAA (CE); Stable
Debentures-Non Convertible Debentures	INE153A08030	March 26, 2014	9.39%	March 26, 2024	765.00	CARE AAA (CE); Stable
Bonds	INE153A08048	November 19, 2014	8.24%	November 19, 2024	1400.00	CARE AAA (CE); Stable
Bonds	INE153A08055	November 19, 2014	8.24%	November 19, 2024	100.00	CARE AAA (CE); Stable
Bonds	INE153A08063	November 19, 2014	8.24%	November 19, 2024	0.07	CARE AAA (CE); Stable
Bonds	INE153A08071	November 28, 2014	8.24%	November 28, 2024	2268.90	CARE AAA (CE); Stable
Bonds	INE153A08089	October 12, 2020	7.05%	October 11, 2030	4361.40	CARE AAA (CE); Stable
Bonds	INE153A08097	December 21, 2020	6.85%	December 20, 2030	2138.60	CARE AAA (CE); Stable

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.	Debentures-Non Convertible Debentures	LT	2980.00	CARE AAA (CE);	1)CARE AAA (CE); Stable	-	1)CARE AAA (SO); Stable	1)CARE AAA (SO); Stable

				Stable	(03-Apr-20)		(01-Oct-18)	(06-Oct-17)
2.	Debentures-Non Convertible Debentures	LT	765.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (03-Apr-20)	-	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)
3.	Bonds	LT	3768.97	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (03-Apr-20)	-	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)
4.	Term Loan-Long Term	LT	11350.00	CARE AA+ (CE); Stable	1)CARE AA+ (CE); Stable (03-Apr-20)	1)CARE AA+ (CE); Stable (25-Dec-19)	1)CARE AAA (SO); Stable (11-Mar-19)	-
5.	Term Loan-Short Term	ST	1100.00	CARE A1+ (CE)	1)CARE A1+ (CE) (03-Apr-20)	1)CARE A1+ (CE) (25-Dec-19)	1)CARE A1+ (SO) (11-Mar-19)	-
6.	Fund-based - ST-Bank Overdraft	ST	6830.00	CARE A1+ (CE)	1)CARE A1+ (CE) (03-Apr-20)	1)CARE A1+ (CE) (25-Dec-19)	1)CARE A1+ (SO) (11-Mar-19)	-
7.	Term Loan-LT/ST	LT/ST	2640.00	CARE AA+ (CE); Stable / CARE A1+ (CE)	1)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)	-
8.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB / CARE A3	1)CARE BBB; Stable / CARE A3 (03-Apr-20)	1)CARE BBB; Stable / CARE A3 (25-Dec-19)	-	-
9.	Bonds	LT	6500.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (25-Sep-20)	-	-	-
10.	Non-fund-based - ST-BG/LC	ST	80.00	CARE A1+ (CE)	-	-	-	-

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

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 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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