TATA Teleservices (Maharashtra) Limited

June 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,070.00	CARE AA-; Stable	Reaffirmed
Long-term/short-term bank facilities	331.50 (Enhanced from 218.51)	CARE AA-; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	50.00 (Reduced from 162.99)	CARE A1+	Reaffirmed
Commercial paper	7,500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of TATA Teleservices (Maharashtra) Limited (TTML) take into account the demonstrated track record and continuing support from TATA Sons Private Limited (TATA Sons; holding company) in line with CARE Ratings Limited's (CARE Ratings') expectation. Until June 2019, TATA Sons had infused ₹46,595 crore in TATA Tele Business Services (TTBS)[2] and continues to issue a support letter to the company, indicating that it will take all the necessary financial actions for any shortfall in liquidity that may arise to meet the company's financial obligations and the timely payment of debt for the ensuing 12 months. TTBS continues to be of strategic importance to the TATA group, as demonstrated by TATA Sons' continuous support. Furthermore, the company enjoys financial flexibility by virtue of being a part of the TATA group.

The financial performance of the company remained stable during FY23 (refers to the period from April 01 to March 31), which is expected to continue going forward with expected growth in company's strong hold in small and medium enterprises, where there is increasing data requirements and increasingly moving towards cloud-based solutions as businesses go digital. CARE Ratings also takes cognisance of the four-year moratorium on the company's obligations to the Department of Telecommunications (DoT). TTBS has provided for the entire pending dues, including accrued interest, wherein, the provision so created have been transferred to borrowings as deferred payment liability, totalling at ₹16,509 crore as on March 31, 2023 (₹3,117 crore in TTML and ₹13,392 crore in TTSL). Furthermore, TATA Sons has also created provisions in its standalone financials of ₹19,638 crore pertaining to the aforementioned DoT obligations of the companies as on March 31, 2022. Additionally, the review petition filed by TTBS, along with major telecommunication service providers (TSPs) against the Hon'ble Supreme Court's (SC) order on the rectification of computational errors and erroneous disallowances in the liabilities claimed by the DoT, remains subjudice. Considering that provisions have been created for the entire liabilities, any reduction in the AGR and related dues as approved by the Supreme Court will be a positive development for the company.

The rating strengths are, however, tempered by the continuous losses at after-tax levels and a highly leveraged position, leading to a deteriorated capital structure. Furthermore, the company has significant debt repayments due in FY24 amounting to ₹2,500 crore which are expected to be refinanced through bank debt or other options, at competitive lending rates. The ratings further remain underpinned by regulatory changes, the intense competition and technology risks associated with the industry and the capital-intensive nature of operations. Thus, the continued support from TATA Sons along with the ability of the company to improve its financial risk profile while rationalizing its debt levels will remain the key rating monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant turnaround in the operational and financial performance of TTML, with improvement in profitability.
- Debt to EBIDTA below 3.5x on a sustained basis.

Negative factors

- Any change in stance of TATA Sons, resulting in a lack of financial support to TTML.
- Dilution of stake by TATA Sons.
- Any substantial deterioration in the credit profile of TATA Sons.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
[2] TATA Tele Business Services is the umbrella brand under which both, TATA Teleservices (Maharashtra) Limited [TTML; subsidiary of TTSL (rated CARE AA-; Stable/ CARE A1+)] and TTSL, operate on account of similar business operations.

Analytical approach:

Standalone; while factoring in the operational and financial linkages with the holding company, ie, TATA Sons, which are integral to the operations of TTML. Furthermore, the ratings centrally derive comfort from the holding company's support, which is clearly articulated and demonstrated by the support letter issued by TATA Sons, indicating that it will take all the necessary financial actions for any shortfall in liquidity that may arise to meet the company's financial obligations and the timely payment of debt for the ensuing 12 months.

Outlook: Stable

The Stable outlook factors in the expected stability in the financial and operational performance of the company on the back of increasing data requirements by enterprises due to operations rapidly moving towards cloud-based solutions as businesses move away from on-premise solutions. Furthermore, the outlook factors in the support letter issued by TATA Sons as well as past track record of support from TATA Sons ensuring timely servicing of the company's debt obligations.

Detailed description of the key rating drivers:

Key strengths

Entity integral to the TATA group: TTBS marked the foray of the TATA Group into the telecom sector. Both the companies have been continuously receiving financial and managerial support from TATA Sons, which has infused ₹46,595 crore into TTBS to fund the losses, debt repayments, as well as for capital expenditure (capex) and has provided for the aforementioned DoT obligations in its annual accounts. Furthermore, TTML's board comprises senior members from the TATA group, lending management strength and business-specific expertise to the company. The ratings of TTML centrally derive comfort from the support of TATA Sons to arrange for meeting any shortfall in liquidity. In spite of the availability of support, the entity has been meeting its liquidity on its own, without a further fresh infusion of funds from the promoters since June 2019, by mobilising resources at competitive interest rates.

Key weaknesses

Moderate financial risk profile: TTML financial performance remained stable during FY23 with marginal increase in the total operating income (TOI) and stable profit before interest, lease rentals, depreciation and taxation (PBILDT) margin at 44.59% (PY: 43.17%) in FY23. While the retail subscriber base of the company continues to decline, the enterprise business, which contributes to the greater part of the company's TOI, has increased. Considering TTBS's wide optical fibre network of 125,000 km, and a strong brand presence, the enterprise business of TTBS is expected to witness growth in the future.
While the company continues to report losses at after-tax levels on account of high finance costs of ₹1,502 crore during FY23 (PY: ₹1,539 crore), majority (77% of total finance cost in FY23) of these costs are non-cash in nature, including interest on liability component of compound financial instruments and interest on deferred payment liabilities and license fees. Hence, the ability of the company to improve its profitability while scaling up its operations will remain a key monitorable.

Highly leveraged capital structure: TTML's capital structure continues to remain highly leveraged, with a total debt of ₹20,736 crore (including rupee term loans, commercial paper, financial lease obligations, deferred payment liabilities and the accrued interest on debt instruments as on March 31, 2023). The long-term debt of the company has increased due to the accrual of interest on the liability component of the compound financial instruments and deferred payment liabilities. Furthermore, TTML has significant bank debt repayments due in FY24 amounting to ₹2,500 crore which are expected to be refinanced through bank debt or other options at competitive lending rates. The highly leveraged position, coupled with high losses incurred, continues to adversely impact the net worth of the company, thereby leading to weak debt coverage indicators and capital structure. Thus, support from the parent, i.e., TATA Sons, will remain crucial to meet timely debt servicing, regulatory payouts, and operational deficiencies if, any.

Highly competitive nature and technology risk associated with the industry coupled with capital intensive nature of operations: Apart from the existing broadband internet and wireless internet service providers, TTML continues to face competition from existing telecommunication companies providing similar services at competitive rates. Furthermore, predatory pricing by any new entrant in the broadband segment may adversely impact the company's market share. As the company is engaged in managed network services as well, it faces intense competition from both, established large-scale and small-scale tech companies entering the space. Fixed broadband providers are investing in technologies that offer faster broadband services. Any change in technology may impact the operations of the broadband industry, as the same was witnessed in the telecom industry. Rolling out a fixed broadband network requires significant capital investments over time. This involves designing a network, wherein, last-mile connectivity is to be established. As a result, the service provider must incur ongoing operational expenditure (opex) or capex.

Liquidity: Adequate

TTML had free liquidity of ₹81 crore as on March 31, 2023, including cash and bank balances of ₹14 crore and liquid mutual fund investments, the market value of which stood at ₹66 crore. TTML also has unutilised overdraft limits of ₹20 crore, providing additional liquidity buffer. The utilisation of the non-fund-based limits stood at around 23% for the last ten months period ended April 30, 2023. Furthermore, TTML has raised commercial paper (CP) and short and medium-term loans from various lenders at competitive rates for refinancing the existing debt and any shortfall in liquidity.

By virtue of being part of the TATA Group, TTML enjoys substantial financial flexibility, characterised by the demonstrated continued support from TATA Sons. The company obtains a support letter from TATA Sons indicating that it will take all the necessary financial actions for any shortfall in liquidity that may arise to meet the company's financial obligations and the timely payment of debt for the ensuing 12 months.

Assumptions/Covenants:

Name of the Instrument – Term Loans	Detailed Explanation
A. Financial covenants	NA
B. Non-financial covenants	1) TATA Sons along with its affiliates will hold a minimum of 51% unencumbered voting equity stake in the company throughout the tenor of the facility. 2) TATA Sons along with its affiliates will retain management control of the company throughout the tenor of the facility.

Environment, social, and governance (ESG) risks:

TTML remains committed to a holistic and integrated approach towards adopting Environmental, Social and Governance (ESG) principles in its businesses and has members in the Board of Directors (BoD) with expertise in ESG. The company provides its employees and associates with safe, healthy, and fair working conditions. The company continually works with its vendors and suppliers to reduce the environmental impacts of sourcing and has clauses on sustainable sourcing and green initiatives in its procurement policy. Furthermore, TTML sources electricity from power generating companies which promote and use renewable resources for power generation.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Infrastructure Sector Ratings
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Telecom - Cellular & Fixed line services

Incorporated on March 13, 1995, as Hughes Ispat Ltd, TTML was acquired by the TATA group in December 2002. In 2016, TTML issued non-cumulative redeemable preference shares to TTSL, which entitled TTSL to additional voting rights of 26.26%, as a result of which TTML became a subsidiary of TTSL. As on March 31, 2023, TTSL (the holding company) owns a 48.30% (74.56% voting rights) of the company's paid-up equity share capital and TATA Sons (the ultimate holding company) owns 19.58%.

TTML is engaged in providing various wireline voice and data services and managed network services to its customers under the common brand 'TATA Tele Business Services', along with TTSL. The company holds a Unified License in the states of Maharashtra and Goa, as well as an Internet Service Provider (ISP) Category-A license and provides telecommunication and network services to its customers in Maharashtra and Goa.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1,093.80	1,106.17
PBILDT	472.18	493.21
PAT	-1,215.00	-1,144.72
Overall gearing (times)	NM	NM

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Interest coverage (times)	0.31	0.33

A: Audited; NM: Not Meaningful.
Note: The above results are latest financial results available.
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 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: Annexure-4

Lender details: Annexure-5

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
Commercial Paper-Commercial Paper (Standalone)*	-	-	-	7 to 364 days	6,465.00	CARE A1+
	INE517B14925	21-11-22	-	10-11-23	525.00	
	INE517B14933	24-02-23	-	23-02-24	60.00	
	INE517B14941	04-05-23	-	02-08-23	450.00	
Fund-based - LT-Bank Overdraft	-	-	-	-	20.00	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE AA-; Stable
Fund-based-Long Term	-	-	-	04-02-2024	2,000.00	CARE AA-; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	331.50	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-Bank Guarantee	-	-	-	-	50.00	CARE A1+

*As on May 31, 2023

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	50.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Jun-22)	1)CARE AA-; Stable (06-Jul-21) 2)CARE AA-; Stable (04-May-21)	1)CARE A+; Stable (07-Jul-20)
2	Non-fund-based - ST-Bank Guarantee	ST	50.00	CARE A1+	-	1)CARE A1+ (30-Jun-22)	1)CARE A1+ (06-Jul-21) 2)CARE A1+ (04-May-21)	1)CARE A1+ (07-Jul-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	7500.00	CARE A1+	-	1)CARE A1+ (30-Jun-22)	1)CARE A1+ (06-Jul-21)	1)CARE A1+ (07-Jul-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
							2)CARE A1+ (04-May-21) 3)CARE A1+ (03-May-21) 4)CARE A1+ (03-May-21)	
4	Fund-based-Long Term	LT	2000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Jun-22)	1)CARE AA-; Stable (06-Jul-21) 2)CARE AA-; Stable (04-May-21)	1)CARE A+; Stable (07-Jul-20)
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ ST*	331.50	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (30-Jun-22)	1)CARE AA-; Stable / CARE A1+ (06-Jul-21) 2)CARE AA-; Stable / CARE A1+ (04-May-21)	1)CARE A+; Stable / CARE A1+ (07-Jul-20)
6	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (30-Jun-22)	1)CARE AA-; Stable (06-Jul-21) 2)CARE AA-; Stable (04-May-21)	-
7	Fund-based - LT-Bank Overdraft	LT	20.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Jun-22)	1)CARE AA-; Stable (06-Jul-21) 2)CARE AA-; Stable (04-May-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Bank Overdraft	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based-Long Term	Simple
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
6	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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