

**Mahanagar Telephone Nigam Limited**

July 13, 2024

**Credit Update**

On July 11, 2024, Mahanagar Telephone Nigam Limited (MTNL) citing insufficient funds, informed the stock exchange that it could not fund the designated escrow account towards the semi-annual interest obligation aggregating ₹94 crore with respect to sovereign guaranteed bond (ISIN: INE153A08154) as prescribed in the payment mechanism. In accordance with the structured payment mechanism (SPM) recorded in the tri-partite agreement executed among MTNL, Department of Telecommunications (DoT) and Debenture Trustee (DT), MTNL is required to fund the semi-annual interest and/or principal obligation in the designated escrow account with adequate amount 10 calendar days (T-10<sup>th</sup>) before the due date (currently July 20, 2024).

Since MTNL is in breach of the stipulated condition, which is construed as an event of default, DT informed MTNL and DoT, vide letter dated July 11, 2024, to arrange the adequate funds in escrow account on or before July 12, 2024 (T-8<sup>th</sup>, in accordance with Debenture Trust Deed, DTD).

Subsequently, on July 12, 2024, per the communication from DT to CARE Ratings Limited (CARE Ratings), the former has furnished a 'Notice of Invocation of Guarantee' to the Government of India (GoI) following MTNL's failure to fund the escrow account as mentioned. This is in accordance with specified timelines laid out in the SPM.

Rating of these bonds assigned at CARE AAA(CE), principally relies on the presence of a pre-default guarantee from the parent, GoI, along with a structured payment mechanism monitored by a third-party trustee. Per the payment mechanism, the GoI is obligated to fund the designated escrow account with requisite amount on-or-before three days (T-3<sup>rd</sup>) prior to the due date from the date of receipt of communication from DT.

MTNL's insufficient cash generation from operations and slow progress in asset monetisation worsened its liquidity position. This has resulted in delays in debt servicing of its bank facilities (not guaranteed by GoI).

CARE Ratings is in constant touch with all stakeholders and shall continue to closely monitor developments, particularly regarding the timely arrangement of funds by GoI to the designated escrow account on-or-before July 17, 2024, and take appropriate rating action.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and rating sensitivities ([Last Press Release dated July 3, 2024](#))

## Contact us

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