

Bharat Sanchar Nigam Limited

September 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / short-term bank facilities	20,000.00	CARE BBB; Stable / CARE A3+	Reaffirmed
Bonds [^]	8,500.00	CARE AAA (CE); Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

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

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

Rationale and key rating drivers for credit enhanced debt

The rating assigned to the long-term debt instruments of Bharat Sanchar Nigam Limited (BSNL) principally rely on credit enhancement (CE) in the form of an unconditional and irrevocable pre-default guarantee from the Government of India (GoI), through Department of Telecommunications (DoT), Ministry of Communication (MoC). Additionally, the rating takes comfort from the presence of structured payment mechanism (SPM) monitored by a third-party trustee.

Rationale and key rating drivers of BSNL

Reaffirmation of ratings assigned to the long-term and short-term bank facilities, and the unsupported rating, primarily reflects the track record of support demonstrated by GoI in the past and slated support in the upcoming years to the company. This support is evidenced by the revival packages announced on October 23, 2019, July 27, 2022, and June 07, 2023. Additionally, ratings take comfort from the GoI's 100% ownership and the presence of nominee directors on the board of BSNL.

Ratings further consider the traction in implementing the second revival package, the strategic importance of the company to the GoI, and its extensive asset base and nationwide reach, which are crucial for network development in strategically important areas of national importance. CARE Ratings Limited (CARE Ratings) acknowledges the significant reduction in bank debt through the issuance of additional sovereign Guaranteed Bonds (SG) and the receipts of funds from GoI, including Viability Gap Funding (VGF). Although part of the rated bank facilities aggregating to ₹14,077 crore, are proposed facilities, discussion with the management indicate that future capital expenditure will be funded by GoI under the revival plan, thus preventing an increase in the company's bank debt in the medium term. Additionally, the company has received approval from the Union Cabinet to raise balance SG Bonds aggregating ₹16,584 crore under the revival package, which can be utilised for the repayment the existing or future debt.

However, rating strengths are partially offset by its weak operational and financial performance, heavy interest burden, high human resource costs, and the highly competitive environment.

Rating sensitivities: Factors likely to lead to rating actions

For credit enhanced debt

Positive factors

- Not applicable

Negative Factors

- 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 SPM by any of the parties involved in the transaction.

For bank facility ratings

Positive factors

- Sustained improvement in the financial and business performance of the company resulting in interest coverage of more than 1.5x.

Negative factors

- Moderation in the stance and /or withdrawal of support from the GoI to BSNL.

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

Analytical approach

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

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

Outlook for credit enhanced and standalone ratings: Stable

The Stable outlook reflects the expectation of consistent support to be extended by the GoI and the financial flexibility received by the company's GoI parentage. Operating in a strategically important sector and support mechanisms such as sovereign guarantees shall ensure timely servicing of the obligations providing stability to ratings.

Detailed description of key rating drivers

Key strengths

Sovereign guarantee on bonds

The bond is backed by an unconditional and irrevocable guarantee, for servicing of the entire issue (both, principal amount and the accrued interest), from the GoI, through the DoT, MoC.

Trustee-administered SPM 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 SPM for the bond issue of ₹8,500.00 crore is as follows:

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. If any coupon payment date falls on a day that is not a business day, the payment shall be made by the issuer on the following working day, in line with the SEBI circular No CIR/IMD/DF-1/122/2016 dated November 11, 2016. If the redemption date (also being the last coupon payment date) of the bonds falls on a day that is not a business day, the redemption proceeds shall be paid by the issuer on the immediately preceding business day along with interest accrued on the bonds until, but excluding, the date of such payment.

Wholly owned by GoI and strategically important nature of operations

BSNL is wholly owned by the GoI through the DoT, and 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. Robert J Ravi, Chairman & Managing Director (CMD), BSNL and MTNL, has extensive working experience in the field of telecommunications. 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 (considering 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 government projects of national importance, awarding projects on a nomination basis to the company. Significant projects such as the Network for Spectrum (NFS), Bharat Net, and Smart Cities, among others, 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 the 3G and broadband wireless access (BWA) spectrum ahead of other operators. Furthermore, BSNL has now been allocated 4G spectrum per the second package and the GoI also announced the third revival package on June 07, 2023, reserving 910 MHz across 4G and 5G spectrum for the company aggregating ₹89,047 crore.

Network reach and vast asset base

BSNL's asset base is one of the largest among the telecom players in the Indian industry. With urban areas already saturated (overall tele-density at 127.88%, as on March 31, 2024), rural India (overall tele-density at 58.26%, as on March 31, 2024) is expected to account for a large share of 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. BSNL has a network of optical fibre cable laid across 250,000 kms of the country providing readily available backhaul support for the government's public Wi-Fi project. BSNL has a vast network of telecom towers spread across the country with 68,049 telecom towers as on March 31, 2024.

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). On October 23, 2019, the GoI announced the first revival package for BSNL and MTNL, most of the schemes under which have been successfully implemented including the Voluntary Retirement Scheme (VRS), 4G spectrum allocation and raising SG bonds to restructure the existing debt. However, the monetisation of network assets through the Department of Investment and Public Asset Management (DIPAM) is in progress while the merger with MTNL has been deferred.

There has been significant traction in the schemes under the second revival package announced on July 27, 2022, aggregating ₹1.64 lakh crore, aimed at upgrading services, rolling out 4G services, augmenting the telecom network, and de-stressing the balance sheets. Under the second revival package, BSNL has received 4G spectrum amounting to about ₹48,000 crore which will be utilised for rolling out services in the near term, capex support of ₹8,664 crore from the DoT and Viability Gap Fund of ₹18,589 crore. Additionally, the company has been able to settle its pending AGR obligations up to FY23 of around ₹28,651 crore, raise SG bonds aggregating ₹6,244 crore, and the merger between Bharat Broadband Network Limited (BBNL) has been approved by the MoC and the Board of Directors, and is currently awaiting approval from Ministry of Corporate Affairs (MCA), aimed at augmenting the company's network.

Subsequently, the GoI also announced the third revival package on June 07, 2023, reserving around 910 MHz spectrum in the 4G and 5G bands aggregating ₹89,047.82 crore, which will be utilised by the company for rolling out these services in the future.

Key weaknesses

High human resource cost

BSNL has a large employee base, and the staff costs absorb a high percentage of the company's revenue. BSNL's staff cost was about ₹8,415.23 crore in FY24 (PY: ₹8,006.95 crore) which is around 44% of its total operating income (TOI) in FY24 (around 42% in FY23). Although there has been a significant decrease in the 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 which the company faces and this cost in case of other operators is around 5%-7% of the TOI. The same is considering the 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 going forward.

High burden of interest and debt repayment despite significant reduction in debt

As on March 31, 2024, BSNL had a total debt of ₹26,125 crore (PY: ₹31,233 crore), including ₹7,500 crore preference shares, which has been reissued per the latest revival plan, SG bonds of ₹14,664 crore, bank debt of ₹1133 crore and lease liabilities. The reduction in bank debt in FY24 has been done through issuance of SG bonds aggregating ₹2,059.32 crore utilised to repay high-cost bank debt and receipt of funds from the GoI as VGF aggregating ₹2,400 crore. The payment of interest, and repayment of principal, is a challenge for BSNL unless there is GoI support for recasting the debts. The company's finance costs are also high and stood at ₹1,785 crore (9% of the TOI) in FY24, although reduced from ₹2,565 crore (13% of the TOI) in FY23 with reduction in bank debt.

Although part of the rated bank facilities aggregating to ₹14,077 crore, are proposed facilities, discussion with the management indicate that future capital expenditure will be funded by GoI under the revival plan, thus preventing an increase in the company's bank debt in the medium term. Additionally, the company has received approval from the Union Cabinet to raise balance SG Bonds aggregating ₹16,584 crore under the revival package, which can be utilised for the repayment of the existing or future debt.

Highly competitive nature of industry, despite 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 in the last few years due to factors, including affordable tariffs, wider service availability, the rollout of new technology, among others. The average data consumption per subscriber per month has increased rapidly in the past few years and the same stood at 19.47 GB for FY24, backed by the consumers' digital shift post the COVID-19 pandemic. Data have now

become a key to the growth of the telecom industry, and thus, improvement around this factor works well for the industry. In 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. 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. 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. Going ahead, CARE Ratings notes that 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

BSNL's liquidity profile is adequate and is being supported by the GoI. BSNL had cash and bank balances of ₹13,979 crore as on March 31, 2024, against which the debt obligations payable in FY25 are around ₹978 crore (excluding lease liabilities of around ₹689 crore). The average fund-based working capital utilisation of the company stood at 22% for the 12-month period ended August 2024. This provides additional liquidity buffer of around ₹3,500 crore in the form of 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 company's liquidity.

Assumptions/Covenants: Annexure-3.

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)
[Factoring Linkages Government Support](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Credit Enhanced Debt](#)
[Rating Outlook and Rating Watch](#)
[Mobile Service Provider](#)
[Financial Ratios – Non financial Sector](#)
[Infrastructure Sector Ratings](#)
[Short Term Instruments](#)

Adequacy of credit enhancement structure: Bonds are backed by CE in the form of an unconditional and irrevocable pre-default guarantee from GoI, through DoT

About the Credit Enhancement Provider

GoI has extended the absolute, unconditional, and irrevocable pre-default guarantee for timely servicing of the rated bonds.

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Telecommunication	Telecommunication	Telecom - Services	Telecom - Cellular & Fixed line services

BSNL was incorporated in September 2000 and is wholly owned by the GoI. BSNL took over providing telecom services and network management from the erstwhile Central Government Departments, namely, DTS and DTO on 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, among others, 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, allowing it to operate in all regions, including Delhi and Mumbai, post which it took over MTNL's operations in October 2021.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	19,128	19,335	4,390
PBILDT	7	201	15
PAT	(8,162)	(5,371)	(1,544)
Overall gearing (times)	0.50	0.25	NA
Interest coverage (times)	NM	0.11	0.04

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

Note: these are latest available financial results

Note: The financials have been reclassified 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: Annexure-2

Covenants of rated instrument / facility: Annexure-3.

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds	INE103D08021	23-Sep-2020	6.79%	23-Sep-2030	8500.00	CARE AAA (CE); Stable
Fund-based - LT/ ST-Term loan		-	-	31-03-2028	3509.16	CARE BBB; Stable / CARE A3+
Fund-based/Non-fund-based-LT/ST		-	-	-	16490.84	CARE BBB; Stable / CARE A3+
Unsupported rating		-	-	-	0.00	CARE BBB

Annexure-2: Rating history for 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 2024-2025	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
1	Bonds	LT	8500.00	CARE AAA (CE); Stable	-	1)CARE AAA (CE); Stable (28-Sep-23) 2)CARE AAA (CE); Stable (04-Sep-23)	1)CARE AAA (CE); Stable (05-Sep-22)	1)CARE AAA (CE); Stable (06-Sep-21)
2	Unsupported rating	LT	0.00	CARE BBB	-	1)CARE BBB (28-Sep-23) 2)CARE BBB (04-Sep-23)	1)CARE BBB (05-Sep-22)	1)CARE BBB (06-Sep-21)
3	Fund-based - LT/ST-Term loan	LT/ST	3509.16	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (28-Sep-23)	-	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST	16490.84	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (28-Sep-23)	-	-

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments:

Name of Instrument	Detailed Explanation										
A. Financial covenants	NA										
I. The GoI would only cover the principal amount and the normal interest.											
II. The guarantees would not be transferrable to any agency without prior approval of the budget division, Department of Economic Affairs, Ministry of Finance. In case of default, the lending agency shall invoke the guarantee within a time limit not exceeding 60 days of the default. In case the guarantee is not invoked within the stipulated period, the guarantee would cease to exist for that portion of the tranche/loan/liability for which guarantee has not been invoked.											
III. Trustee-monitored payment mechanism to be followed as stated below: The following is the structured payment mechanism for the bond issue of ₹8,500.00 crore:	<table> <tr> <th>Trigger Date</th><th>Action Point</th></tr> <tr> <td>(T-30)th day*</td><td>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.</td></tr> <tr> <td>(T-10)th day*</td><td>The designated trust and retention account is to be funded by BSNL to the tune of the interest or principal obligations on the bonds.</td></tr> <tr> <td>(T-8)th day*</td><td>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.</td></tr> <tr> <td>(T-3)rd day*</td><td>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.</td></tr> </table> <p>*T being the due date for payment of interest or repayment of principal of the bond. If any coupon payment date falls on a day that is not a business day, the payment shall be made by the issuer on the following working day, in line with the SEBI circular No CIR/IMD/DF-1/122/2016 dated November 11, 2016. If the redemption date (also being the last coupon payment date) of the bonds falls on a day that is not a business day, the redemption proceeds shall be paid by the issuer on the immediately preceding business day along with interest accrued on the bonds until, but excluding, the date of such payment.</p>	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.
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.										

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Bonds	Simple
2	Fund-based - LT/ ST-Term loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Unsupported rating	Simple

Annexure-5: Lender details

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

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

Contact us

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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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

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