TATA Teleservices (Maharashtra) Limited

June 30, 2022

Ratings

Facilities/Instruments*	Amount (₹ crore)	Ratings	Rating Action
Long-term bank facilities	2,070.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long-term/short-term bank facilities	218.51 (Enhanced from 173.51)	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term bank facilities	162.99 (Reduced from 207.99)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**2,451.50 (₹ Two thousand four hundred fifty-one crore and fifty lakh only)**		
Non-convertible debentures@	-	-	Withdrawn
Total long-term instruments	-		
Commercial paper	7,500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**7,500.00 (₹ Seven thousand five hundred crore only)**		

* Details of instruments/facilities in Annexure-1.
@CARE Ratings Limited (CARE Ratings) has withdrawn the ratings assigned to the non-convertible debentures (NCDs) proposed by TATA Teleservices (Maharashtra) Limited with immediate effect. The above action has been taken at the request of the company, as the instrument has not been raised yet.

Detailed 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; ultimate holding company) in line with CARE Ratings' expectation. Until June 2019, TATA Sons had infused ₹46,595.05 crore in TATA Tele Business Services (TTBS)[1] 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, despite no fresh fund infusion by TATA Sons post-June 2019, the company enjoys financial flexibility by virtue of being a part of the TATA Group.

CARE Ratings also takes cognisance of an improving industry scenario on the back of the telecom reforms announced by the Government of India (GoI) in September 2021, under which, TTBS has opted for the deferment of the adjusted gross revenue (AGR) and related dues for a period of four years. TTBS has already provided for the entire pending dues, including accrued interest, wherein, the provision so created has been transferred to borrowings as deferred payment liability or trade payables, totalling at ₹15,408 crore as on March 31, 2022 (₹2,909 crore in TTML and ₹12,499 crore in TTSL). Furthermore, on July 23, 2021, the Supreme Court (SC) dismissed the applications filed by TTBS along with major telecommunication service providers (TSPs) seeking rectification of computational errors and erroneous disallowances in the liabilities claimed by the Department of Telecommunications (DoT). Subsequently, TTBS, along with major TSPs, filed a review petition on August 22, 2021, against the SC orders, which is subjudice. Considering that provisions have been created for the entire liabilities, any reduction in the AGR and related dues as approved by the SC will be a positive development for the company.

The GoI, on June 14, 2022, provided approval for enterprises setting up captive non-public networks (CNPNs), to obtain 5G spectrum directly from the DoT, for establishing their own isolated networks. The aforementioned presents a new set of opportunities for the company, thus providing growth avenues and will be a key rating monitorable.

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. The ratings further remain underpinned by the 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 deleveraging its capital structure will remain the key rating monitorable.

[1] TATA Tele Business Services is the umbrella brand under which both TTML and TATA Teleservices Limited [TTSL, holding company (rated CARE AA-; Stable/ CARE A1+)] operate on account of similar business operations.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

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

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

Detailed description of the key rating drivers

Key rating strength

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 ₹46,595.05 crore into TTBS to fund the losses, debt repayments, as well as for capital expenditure (capex). 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 rating weaknesses

Moderate financial risk profile: TTML's total operating income (TOI) increased by around 5% in FY22 as compared to FY21 because of the easing up of lockdowns and the opening of the economy. 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 post-COVID-19, with enterprises increasingly moving towards Cloud-based solutions. Post the pandemic, businesses are going digital and are moving away from on-premise solutions and there is a focus on Cloud and conferencing solutions and a newer breed of digital technologies. Considering TTBS's wide optical fibre network of 132,000 km, and a strong brand presence, the enterprise business of TTBS is expected to witness growth in the future.
While the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of TTML has increased post hiving off its consumer mobile business, the PBILDT margin displayed a decline in FY22 of 370 bps over FY21, mainly on account of the increased interconnect expenses and increased customer acquisition and marketing costs. Furthermore, TTML continues to report profit-after-tax (PAT) losses due to the high finance costs of ₹1,539 crore during FY22 (PY: ₹1,571 crore). The ability of the company to sustain its profitability margins on a continuous basis will remain a key monitorable.

Highly leveraged capital structure: TTML's capital structure continues to remain highly leveraged, with a total debt of ₹24,764 crore (including deferred payment liabilities as on March 31, 2022 (₹23,673 crore as on March 31, 2021). 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. 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 parent, ie, 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.

Regulatory changes: After the Cabinet approval for the 5G spectrum auction on June 14, 2022, the DoT released a notice inviting applications on June 15, 2022, for the auction of spectrum in the low, mid, and high-frequency bands. The spectrum will have a validity of 20 years and the pricing has been kept as per the recommendation from the Telecom Regulatory Authority of India (TRAI), at a discount of 35-40% from the 2018 spectrum prices. Furthermore, there is no requirement for upfront payment by the successful bidders and the payments for the spectrum will spread across 20 equal annual instalments, with an option to surrender after 10 years, with no future liabilities with respect to balance installments. No spectrum usage charge will be collected for the spectrum and the requirement for bank guarantees (BGs) has also been done away with.
However, contrary to the demands of the TSPs, the GoI has approved enterprises to acquire the spectrum directly from the DoT for setting their own isolated CNPN, the pricing and modalities for which are yet to be determined. The same is expected to provide business opportunities and growth avenues. As TTBS is no longer in the consumer mobile segment, it will not participate in the public 5G spectrum auction. However, the CNPN approval opens new enterprise business avenues for TTBS in

various industries. The ability of the company to mitigate risks arising out of regulatory changes will continue to remain key monitorable.

Liquidity: Adequate

TTML had free liquidity of ₹117 crore as on March 31, 2022, including cash and bank balances of ₹16.50 crore and liquid mutual fund investments, the market value of which stood at ₹100.50 crore. TTML also has unutilised overdraft limits of ₹70 crore, providing additional liquidity buffer. The utilisation of the non-fund-based limits stood at around 31% for the last eight months period ended April 30, 2022. 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.

Analytical approach

Standalone; while factoring in the operational and financial linkages with the ultimate holding company, ie, TATA Sons, which are integral to the operations of TTML. Furthermore, the ratings centrally derive comfort from the ultimate 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.

Applicable criteria

Policy on Withdrawal of Ratings
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

About the company

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, 2022, 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, 2021 (A)	March 31, 2022 (A)
Total operating income	1,044.25	1,093.80
PBILDT	489.52	472.18
PAT	-1,996.69	-1,215.00
Overall gearing (times)	NM	NM
Interest coverage (times)	0.31	0.31

A: Audited; NM: Not Meaningful.
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 the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	50.00	CARE AA-; Stable
Non-fund-based - ST-Bank guarantee	-	-	-	162.99	CARE A1+
Fund-based-Long term	-	-	February 2024	2,000.00	CARE AA-; Stable
LT/ST fund-based/Non-fund-based-EPC/PCFC/FBP/FBD/WCDL/OD/BG/SBLC	-	-	-	218.51	CARE AA-; Stable/CARE A1+
Fund-based - LT-Bank overdraft	-	-	-	20.00	CARE AA-; Stable
Debentures-Non-convertible debentures	-	-	-	0.00	Withdrawn
Commercial paper-Commercial paper (standalone)	-	-	Seven to 364 days	7,500.00	CARE A1+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Cash credit	LT	50.00	CARE AA-; Stable	-	1)CARE AA-; Stable (July 06, 2021) 2)CARE AA-; Stable (04-May-21)	1)CARE A+; Stable (07-Jul-20)	1)CARE A+; Stable (December 27, 2019) 2)CARE A+; Stable (August 20, 2019) 3)CARE A+; Stable (June 26, 2019)
2.	Non-fund-based - ST-Bank guarantee	ST	162.99	CARE A1+	-	1)CARE A1+ (July 06, 2021) 2)CARE A1+ (May 04, 2021)	1)CARE A1+ (July 07, 2020)	1)CARE A1+ (December 27, 2019) 2)CARE A1+ (August 20, 2019) 3)CARE A1+ (June 26, 2019)
3.	Commercial paper-Commercial paper (standalone)	ST	7,500.00	CARE A1+	-	1)CARE A1+ (July 06, 2021) 2)CARE A1+ (May 04, 2021) 3)CARE A1+ (May 03, 2021) 4)CARE A1+ (May 03, 2021)	1)CARE A1+ (July 07, 2020)	1)CARE A1+ (January 15, 2020) 2)CARE A1+ (December 27, 2019) 3)CARE A1+ (August 20, 2019) 4)CARE A1+ (June 26, 2019) 5)CARE A1+

Sr. No.	Name of the Instrument /Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
								(CWD) (May 16, 2019)
4.	Fund-based-Long term	LT	2,000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (July 06, 2021) 2)CARE AA-; Stable (May 04, 2021)	1)CARE A+; Stable (July 07, 2020)	1)CARE A+; Stable (December 27, 2019) 2)CARE A+; Stable (August 20, 2019) 3)CARE A+; Stable (June 26, 2019)
5.	LT/ST fund-based/Non-fund-based-EPC/PCFC/FBP/FBD/WCDL/OD/BG/SBLC	LT/ ST*	218.51	CARE AA-; Stable/ CARE A1+	-	1)CARE AA-; Stable/CARE A1+ (July 06, 2021) 2)CARE AA-; Stable/CARE A1+ (May 04, 2021)	1)CARE A+; Stable/CARE A1+ (July 07, 2020)	1)CARE A+; Stable/CARE A1+ (December 27, 2019) 2)CARE A+; Stable/CARE A1+ (August 20, 2019) 3)CARE A+; Stable/CARE A1+ (June 26, 2019)
6.	Debentures-Non-convertible debentures	LT	-	-	-	1)CARE AA-; Stable (July 06, 2021) 2)CARE AA-; Stable (May 04, 2021)	-	-
7.	Fund-based - LT-Bank overdraft	LT	20.00	CARE AA-; Stable	-	1)CARE AA-; Stable (July 06, 2021) 2)CARE AA-; Stable (May 04, 2021)	-	-

*Long term/Short term.

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

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.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Commercial paper-Commercial paper (standalone)	Simple
2.	Fund-based - LT-Cash credit	Simple
3.	Fund-based-Long term	Simple
4.	LT/ST fund-based/Non-fund-based-EPC/PCFC/FBP/FBD/WCDL/OD/BG/SBLC	Simple
5.	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

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

Note on 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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