

Bharat Sanchar Nigam Limited

September 15, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ^[1]	Rating Action
Long-term Instruments (Bonds – Proposed)	8,500.00 ¹	CARE AAA (CE); Stable (Triple A (Credit enhancement); Outlook: Stable)	Assigned
Total facilities	8,500.00 ¹ (Rupees Eight Thousand Five Hundred crore only)		

Details of instruments in Annexure I

¹Backed by the Credit enhancement in the form of unconditional and irrevocable guarantee from Government of India (GOI).

Unsupported Rating ²	CARE BBB; Stable/ CARE A3
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Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers

The rating assigned to the long term instrument of Bharat Sanchar Nigam Limited (BSNL) is based on the Credit enhancement in the form of unconditional and irrevocable guarantee from the Government of India (GOI), supported by a structured payment mechanism. Further, the rating also factors in 100% ownership of Government of India (GoI), continuous support in the past & expected support in the upcoming years to BSNL from GoI (as GoI had announced revival plan of MTNL and BSNL on October 23, 2019), the strategic importance of BSNL for GoI for implementing various telecom infra projects throughout the country and its vast asset base, which is instrumental in network building in areas of strategic and national importance.

The standalone rating considers the GoI's 100% shareholding in the company and the presence of nominee directors appointed by GoI on the board of BSNL. The ratings also factor in the large subscriber base and its reach throughout the country. 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.

BSNL 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. In the anticipation of the said approval following the regulatory package by RBI some of the scheduled repayments and interest payments were deferred by the company. The moratorium has been approved by the bankers of BSNL. 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 Sensitivities:

- Any change in GoI's ownership in BSNL or change in the focus/support from GoI to BSNL.
- 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 bond issue is backed by an unconditional and irrevocable guarantee from GoI through the Department of Telecommunications (DoT, Ministry of Communication & Information Technology) for servicing the entire bond issue (both principal amount as well as the accrued interest).

Trustee-administered structured payment mechanism, designed to ensure full and timely payment to bond holders

A trustee-monitored payment mechanism has been put in place to ensure the timely payment of the interest & principal obligations on the bond issue through a tripartite agreement between BSNL, Trustee (M/s SBICAP Trustee Company

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

² 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).

Limited) and the GoI. The trustee will facilitate timely servicing of BSNL's obligations by DoT even if BSNL doesn't have sufficient funds to do so.

Following is the structured payment mechanism for the bond issue of Rs. 8,500.00 crore:

Trigger Date	Action Point
(T- 30)th day*	Trustees 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 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 BSNL 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.

Wholly owned by Government of India

GoI, through Department of Telecommunications, holds 100% ownership of the company. BSNL was awarded 2G license for no charge and was the second/third operator in most circles with start-up spectrum in the 900 MHz band. It was also awarded 3G and BWA spectrum ahead of other operators. BSNL owns pan India 3G spectrum which is used for providing high speed internet services. BSNL is working on the plans to develop public Wi-Fi network using its optical fibre cable network, providing connectivity to public at a large scale. Also, GoI is continuously monitoring the borrowing plans of BSNL. as the company has to get approvals for all its borrowing plans from its Board, which also includes Govt. Nominees as Independent Directors.

Strategic importance of BSNL for the government

BSNL has played a crucial role in the development of telecom infrastructure, a key driver of socio-economic development in India. BSNL is instrumental in network building in areas of strategic and national importance and has contributed significantly in increasing rural India's tele-density to 58.79% as on March 31, 2020 with highest number of rural and urban wireline subscribers which stood at 2.24 million and 17.97 million as on March 31, 2020 under its management. BSNL also plays a crucial role in the implementation of communication networks for defense forces. Further, BSNL is the only operator who has been given license by DoT, GoI to provide Satellite Phone (SAT Phone) to provide services to Enterprises and Defence forces. With increasing government focus on connectivity and concerns regarding data security, BSNL is considered as a strategically important organization. Hence, it is a partner of choice for a number of Government projects. GoI is banking heavily on BSNL for the execution of various government projects which are of national importance like NFS Project, Bharat Net Project, Smart Cities Project etc. and are awarded to BSNL because of its vast resources and expertise in managing the country wide network. GoI had awarded projects worth around Rs. 50,000 crore to BSNL either on nomination basis or through bidding in tenders. The following projects namely BBNL Phase 1; BBNL Phase 2; NFS; Astha Mangalam; Andaman Cable; Cable for South East Region; North East (NE) Project, are currently under execution. Company has earned Rs. 881.56 crore of income from Govt. projects in FY20 (FY19: Rs 1011.85 crore).

Support from Government of India (GoI)

In FY11, BSNL had to make payment towards spectrum charges for 3G and Wimax to the extent of Rs.18525 Crore as it was directed by GoI to take up this spectrum and pay for the same. However, in FY14 BSNL had surrendered BWA spectrum and Rs.6725 crore as a refund for surrender of BWA spectrum was adjusted towards spectrum usage and license charge during FY17. During FY18, GoI has given order worth Rs. 50,000 crore to BSNL for setting up of telecom infrastructure. BSNL has already started working on the projects and has completed projects worth Rs 20,000 crore so far. Further, GoI on 23rd Oct 2019 had announced the revival package for BSNL & MTNL. Under the revival plan, a VRS scheme was approved by the Government and around 78570 employees of the company have opted for VRS. The ex gratia payout is also to be borne by the GOI. Also, for the allocation of 4G spectrum to BSNL, GoI will be infusing equity in BSNL 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. 8,500 Cr. backed by Sovereign Guarantee from GOI for BSNL and also land assets of BSNL 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.

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 142.31%, as on March 31, 2020), rural India (overall tele-density at 58.79%, as on March 31, 2020) 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, putting BSNL at an advantageous position. Further, BSNL has a network of optical fibre cable laid across 2,50,000 kms of the country providing readily available backhaul support for the government's public Wi-Fi project. Furthermore, BSNL has a vast network of telecom towers spread across the country, which stood at 68,049 as on March 31, 2020 as against 67,018 as on March 31, 2018.

Liquidity

The liquidity profile of BSNL is adequate. The liquidity & financial profile of BSNL is being supported by GoI. Although, 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 the BSNL to sustain its market shares and to further attract new customers and intense competition within the industry. BSNL 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 current ratio stood at 0.54x as on March 31, 2020. Further, the company's liquidity position is expected to improve post conclusion of VRS resulting in a saving of Rs. 8000-9000 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 BSNL. Further there is a presidential approval upto ~Rs 39,000 crore for bank borrowing & sovereign bonds sanctioned for capex & working capital borrowings to BSNL for FY21. The bank borrowings are backed by LOC from GoI and the sovereign bond are backed by unconditional & irrevocable guarantee from GoI.

Key Rating Weakness

High human resource cost leading to huge losses

BSNL has large employee base and the staff cost absorbs a very high percentage of the revenue of the company. BSNL's staff cost was about Rs.13,927 crore in FY20 (Rs.15112.46 crore in FY19) which is around 83% of its net sales in FY20 (around 90% in FY19). The decrease in the staff cost in FY20 is on account of the employees who opted for VRS from Jan 2020. Savings on accounts of the same for partial two months has led to lower employee cost in FY20 vis-à-vis FY19. This cost is further expected to fall going forward. 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 BSNL had been mainly due to legacy issues, as many of its employees were inherited from DTS and DTO, when it was incorporated in the year 2000.

Analytical approach: The rating is based on the 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 ratings also factor in the 100% GoI ownership.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Consolidation and Factoring Linkages in Ratings](#)

[Rating Credit Enhanced Debt](#)

[Rating Methodology-Mobile Service Providers](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

Bharat Sanchar Nigam Limited (BSNL) was incorporated in September, 2000 and is wholly owned by Government of India (GoI). BSNL took over the business of providing of telecom services and network management from the erstwhile Central Government Departments of Telecom Services (DTS) and Telecom Operations (DTO), with effect from October 01, 2000. BSNL has installed Quality Telecom Network in the country & now focusing on improving it, expanding the network, introducing new telecom services with ICT applications in villages. BSNL serves its customers with a wide bouquet of 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), ISDN, leased line, intelligent network and electronic private automatic branch exchange (EPABX) services, etc PAN India (except New Delhi and Mumbai) including inaccessible areas of Siachen glacier and North-Eastern regions of the country.

According to TRAI, as on March 31, 2020, BSNL is the largest wireline operator in the country with 8.73 million wireline subscribers (43.16% market share). It also holds the 10.35% market share (119.78 million subscribers) in the wireless segment as on March 31, 2020. BSNL has total subscriber base of 128.51 million as on March 31, 2020 (126.91 million as on March 31, 2019 and 123.95 million as on March 31, 2018) with a market share of 10.89% including 39.79 million rural subscriber base with a market share of rural subscribers of 7.80%.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Income from Operations	18,946.60	18,498.03
PBILDT	-8,709.72	-7,257.98
PAT	-14,904.24	-15,499.52
Overall gearing (times)	0.39	0.66
Interest Coverage (times)	-11.09	-3.64

A: Audited

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: Not Applicable

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long-term Instruments (Bonds - Proposed)	-	-	-	8500.00	CARE AAA (CE); Stable
Un Supported Rating	-	-	-	0.00	CARE BBB

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.	Fund-based - ST-Term loan	-	-	-	-	-	-	-
2.	Fund-based - ST-Term loan	-	-	-	-	-	-	-
3.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (03-Apr-20)	1)CARE AA+ (CE); Stable (25-Dec-19) 2)CARE AAA (SO); Stable (18-Apr-19)	1)CARE AAA (SO); Stable (05-Dec-18) 2)CARE AAA (SO); Stable (21-Jun-18)	1)CARE AAA (SO); Stable (26-Mar-18)
4.	Fund-based - ST-Term loan	-	-	-	-	-	-	-
5.	Fund-based - ST-Term loan	-	-	-	-	-	-	-
6.	Fund-based - LT/ ST-Term loan	LT/ST	-	-	1)Withdrawn (03-Apr-20)	1)CARE AA+ (CE); Stable / CARE A1+ (CE) (25-Dec-19) 2)CARE AAA (SO); Stable / CARE A1+ (SO) (18-Apr-19)	-	-
7.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	-	-	1)Withdrawn (03-Apr-20)	1)CARE BBB; Stable / CARE A3 (25-Dec-19)	-	-
8.	Long-term Instruments (Bonds – Proposed)	LT	8500.00	CARE AAA (CE); Stable	-	-	-	-
9.	Un Supported Rating	LT	0.00	CARE BBB	-	-	-	-

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.	Long-term Instruments	Simple
2.	Un Supported Rating	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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