

Mahanagar Telephone Nigam Limited

March 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	9100	CARE AAA (SO); Stable (Triple A (Structured Obligations); Outlook: Stable)	Assigned
Short-term Bank Facilities	8000	CARE A1+ (SO) (A One Plus (Structured Obligations))	Assigned
Long-term/Short-term Bank Facilities	4900	CARE AAA (SO); Stable/CARE A1+ (SO) (Triple A(Structured Obligations); Outlook: Stable/A One Plus(Structured Obligations))	Assigned
Total facilities	22,000 (Rs. Twenty Two Thousand crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The rating assigned to the aforesaid bank facilities of Mahanagar Telephone Nigam Limited (MTNL) is based on credit enhancement in the form of Letter of Comfort (Letter No. 17-5/2010-SU-II) from Department of Telecom under Ministry of Communication and Information Technology, Government of India (GOI).

Going forward, the timely renewal of the LOC during the tenure of the rated facility would continue to be a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Letter of Comfort from Department of Telecom under Ministry of Communication and Information Technology, Government of India (GOI)

Department of Telecom, Government of India (GoI) has provided a Letter of Comfort (LOC) for ensuring timely payment of MTNL's debt obligations. The LOC was initially issued on October 27, 2010 for the period of three years from October 27, 2010 to October 26, 2013. The same was renewed on June 23, 2013 for a further period of three years from October 27, 2013 to October 26, 2016, and again for a further three years on February 10, 2017 for the period from October 27, 2016 till October 26, 2019. The LOC is a credit enhancement whereby GOI owes responsibility for timely payment of interest and principal to Banks/FIs for MTNL's loans.

Majority ownership of Government of India

MTNL is one of the only two state owned telecom service provider in India along with Bharat Sanchar Nigam Limited (BSNL, rated CARE AAA (SO); Stable). Government of India (GoI) holds the majority stake in MTNL (56.75% as on Dec 31, 2018). The company enjoys 'Navratna Status', a status that gives greater autonomy to Central Public Sector Enterprises (CPSEs) in their investment and capital expenditure decisions. Such a status also aims at facilitating expansion of its operations both in the domestic and global markets. The rest of the 43.25% of the shareholding is held by the public.

Key Rating Weaknesses

High employee cost leading to losses

MTNL has a huge employee force which it inherited from Department of Telecom (DoT). As on March 31 2018, MTNL had 25191 (27919 as on March 31, 2017 and 31070 as on March 31, 2016) working employees as compared to 62,000 in the year 1997-98. There has been a continuous trend of reduction in the staff strength because of three Voluntary Retirement Scheme (VRS) in the past, as well as natural attrition. However, MTNL is still suffering from a high level of staff costs, which are fixed in nature and absorb a disproportionately high percentage of their revenues. Additional pension

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

payments to retired staff has cast a heavy burden on MTNL for actual pay-outs as well as provisions for retirement benefits. Overstaffing is a major risk which the Company faces as it has little flexibility to address the problem and while this cost is around 5% of total operating income (for other operators), it is around 86% for FY18 in the case of MTNL.

Moderate Liquidity evident by high burden of interest and debt repayment

MTNL had paid an amount of Rs.11097 Crore to acquire 3G and BWA spectrum, which was funded through term loans of Rs.7000 crore while the remaining amount was paid by internal accruals. MTNL is facing a huge interest burden due to these loans. The interest and finance cost of the company is very high and stood at Rs. 1512.02 crore (49.24% of total operating income) in FY18 as against Rs. 1448.47 crore (42.27% of total operating income) in FY17.

MTNL had cash and cash equivalents of Rs. 47.01 crore as on December 31, 2018. MTNL is highly indebted with a near term repayment of Rs. 344.65 crore payable in FY19. Hence, the company is dependent upon Govt. Support for servicing its debt obligations in a timely manner.

Analytical approach:

Standalone; Credit enhancement in the form of Letter of Comfort (Letter No. 17-5/2010-SU-II) from Department of Telecom under a Ministry of Communication and Information Technology, Government of India (GOI)

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Criteria for Factoring Linkages in Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Mahanagar Telephone Nigam Limited (MTNL) was incorporated by Government of India (GoI) in 1986 with the aim of upgrading the quality of telecom services, expanding the telecom network and introducing new services for India's key metros Delhi and Mumbai. MTNL has been given Navratna status in 1997 and was listed in New York Stock Exchange in 2001.

Presently, MTNL is providing a host of telecom services that include fixed telephone service, GSM, Internet, Broadband, ISDN and Leased Line services. MTNL has been the first to launch some of the latest telecom technologies in the country like ADSL2+ & VDSL2 in broadband, IPTV on MPEG4 technology, VOIP and 3G Mobile service. As on March 31, 2018, MTNL has total subscriber base of 6.90 million consisting of 3.56 million wireless subscribers (0.30% market share) and 3.35 million wireline subscriber base (14.67% market share).

MTNL is also providing telecommunication services beyond Indian boundaries through its Joint Ventures and Subsidiaries. MTNL is present in Nepal through its Joint Venture United Telecom Limited (UTL) and in Mauritius through its 100% subsidiary Mahanagar Telephone Mauritius Limited (MTML).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3438.29	3070.73
PBILDT	-517.60	-470.49
PAT	-2941.07	-2973.45
Overall gearing (times)*	NM	NM
Interest coverage (times)	NM	NM

*The bonds amounting Rs. 4533.97 crore, which the company has offset against the amount recoverable from DoT are considered as a part of debt.

A: Audited

NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	September 2025	9100.00	CARE AAA (SO); Stable
Term Loan-Short Term	-	-	October 2019	1100.00	CARE A1+ (SO)
Fund-based - ST-Bank Overdraft	-	-	Yearly Renewal	6900.00	CARE A1+ (SO)
Proposed Term Loan-LT/ST	-	-	Proposed	4900.00	CARE AAA (SO); Stable / CARE A1+ (SO)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	2980.00	CARE AAA (SO); Stable	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)	1)CARE AAA (SO) (10-Oct-16)	1)CARE AAA (SO) (03-Feb-16)
2.	Debentures-Non Convertible Debentures	LT	765.00	CARE AAA (SO); Stable	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)	1)CARE AAA (SO) (10-Oct-16)	1)CARE AAA (SO) (03-Feb-16)
3.	Bonds	LT	3768.97	CARE AAA (SO); Stable	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)	1)CARE AAA (SO) (10-Oct-16)	1)CARE AAA (SO) (03-Feb-16)
4.	Term Loan-Long Term	LT	9100.00	CARE AAA (SO); Stable	-	-	-	-
5.	Term Loan-Short Term	ST	1100.00	CARE A1+ (SO)	-	-	-	-
6.	Fund-based - ST-Bank Overdraft	ST	6900.00	CARE A1+ (SO)	-	-	-	-
7.	Term Loan-LT/ST	LT/ST	4900.00	CARE AAA (SO); Stable / CARE A1+ (SO)	-	-	-	-

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