

Mahanagar Telephone Nigam Limited
April 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	11350.00 (enhanced from Rs. 9100 crore)	CARE AA+ (CE)[^]; Stable [Double A plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	8010.00 (enhanced from Rs. 8000.00 crore)	CARE A1+ (CE)[^] [A One Plus (Credit Enhancement)]	Reaffirmed
Long-term/Short-term Bank Facilities	2640.00 (reduced from Rs. 4900 crore)	CARE AA+ (CE)[^]; Stable/CARE A1+ (CE)[^] [Double A plus (Credit Enhancement); Outlook: Stable/A One Plus (Credit Enhancement)]	Reaffirmed
Total Bank facilities	22,000 (Rs. Twenty Two Thousand crore only)		
Non-Convertible Debentures-I	2980.00 (Rs. Two Thousand Nine Hundred Eighty crore only)	CARE AAA (CE)^{^^}; Stable [Triple A plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Non-Convertible Debentures-II	765.00 (Rs. Seven Hundred Sixty Five crore only)	CARE AAA (CE)^{^^}; Stable [Triple A plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Non-Convertible Debentures-III	3,768.97 (Rs. Three Thousand Seven Hundred Sixty Eight crore and Ninety Seven lakh only)	CARE AAA (CE)^{^^}; Stable [Triple A plus (Credit Enhancement); Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

[^]Backed by the Credit enhancement in the form of 'Letter of Comfort' (LoC) from Department of Telecom under Ministry of Communication and Information Technology, Government of India (GOI).

^{^^}Backed 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 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).

The ratings assigned to the Non-convertible debenture (NCD) issues of Mahanagar Telephone Nigam Limited (MTNL) are based on the credit enhancement in the form of unconditional and irrevocable guarantee of Government of India (GOI), supported by a structured payment mechanism.

The reaffirmation of the ratings assigned to bank facilities and NCD Issues of MTNL, continues to factor in majority holding of Government of India (GoI) (56.25% holding as on March 31, 2019), continuous support in the past & expected support in the upcoming years to MTNL from GoI (as GoI had announced revival plan of MTNL and BSNL on October 23, 2019) and strategic importance of MTNL for GoI.

The standalone rating considers the majority shareholding of GoI and the presence of nominee directors appointed by GoI on the board of MTNL. The ratings also factors in the Navratna Status given to the company. 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.

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

²As stipulated vide SEBI circular no SEBI/ HO/ MIRS/ 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).

Key Rating Sensitivities

Going forward, the continued support from Gol and the ability of the company to manage its liquidity position would be the key rating sensitivities.

The “LOC” is issued on renewal basis and the rating is conditional on timely renewal of the “LOC” during the tenure of the rated facilities as stipulated in the terms of sanction of the rated bank facilities. Thus, the timely renewal of the LOC during the tenure of rated facility would be the key rating sensitivity.

Positives

- Successful and timely execution of the revival plan of MTNL announced by Gol.
- Improvement in the financial profile of MTNL including its ability to turn the operations profitable

Negatives

- Any change in Gol’s ownership in MTNL or change in the focus/support from Gol to MTNL
- Any delay in renewal of LOC

Detailed description of the key rating drivers**Key Rating Strengths****Credit enhancement for the Non-Convertible Debentures in the form of Unconditional and irrevocable guarantee from Gol**

The NCD issue is backed by an unconditional and irrevocable guarantee for servicing of the entire bond issue (both principal amount as well as the accrued interest) from Gol through the Department of Telecommunications (DoT, Ministry of Communication & Information Technology).

Trustee-administered structured payment mechanism, designed to ensure full and timely payment to bond holders (for Non-Convertible Debentures)

A trustee-monitored payment mechanism is in place to ensure the timely payment of the interest & principal obligations on the bond issue through a tripartite agreement between MTNL, Trustee (SBI Capital Markets Ltd.) and Gol. The trustee will facilitate timely servicing of MTNL’s obligations by DoT even if MTNL doesn’t have sufficient funds to do so.

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

Department of Telecom, Government of India (Gol) has provided a Letter of Comfort (LOC) for ensuring timely payment of MTNL’s debt obligations. 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 subsequently renewed on June 23, 2013 for further period of three years from October 27, 2013 to October 26, 2016, on February 10, 2017 for the period from October 27, 2016 till October 26, 2019 and on October 12, 2019 for further period of three years from October 27, 2019 to October 26, 2022. The LOC is a credit enhancement whereby GOI owes responsibilities of timely payment of interest and repayments to Banks/FIs due from MTNL’s loans. LOC states that “DoT/ Gol will ensure that MTNL meets its payment obligation on Loan/ Debt in a timely manner and DoT will continue to support its effort to strengthen the company.” ‘LOC’ is issued on renewal basis and the timely renewal of the LOC during the tenure of the rated facility would be the key rating sensitivity.

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). Government of India (Gol) holds the majority stake in MTNL (56.25% as on March 31, 2019). 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 43.75% of the shareholding is held by the public.

Support from Government of India (Gol)

Keeping in mind the legacy as well as strategically important nature of MTNL, Gol is looking at various options to work out long term revival strategy of the Company and has meanwhile continued to support the company’s funding requirements through issuance of Letter of Comfort. Department of Telecom, Government of India (Gol) has provided Letter of Comfort (LOC) for ensuring timely payment of MTNL’s debt obligations.

Further, Gol on 23rd Oct 2019 had announced the revival package for BSNL & MTNL. Under the revival plan, a VRS scheme is approved by the Government with around 14500 employees opted for VRS. The ex gratia payout is also to be borne by the GOI. Also, for the allocation of 4G spectrum to MTNL, Gol will be infusing preference shares in MTNL which in turn will be used to pay the Spectrum charges to the Gol. The Government has also accorded its approval to issue NCD’s to the tune of Rs. 6,500 Cr. backed by Sovereign Guarantee from GOI for MTNL and land assets of MTNL 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.

Moderate Liquidity

The liquidity profile of MTNL is moderate due to continuous operational losses on account of subdued industry scenario, declining ARPU due to ongoing price war after the entry of RJio resulting in intense competition within the industry. 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. The interest and finance cost of the company is very high and stood at Rs. 1703.18 crore (66.13% of total operating income) in FY19 as against Rs. 1512.02 crore (49.24% of total operating income) in FY18.

MTNL had cash and cash equivalents of Rs. 85.74 crore as on September 30, 2019. MTNL is highly indebted with a long term debt repayment of Rs. 640 crore payable in FY19. The liquidity & financial profile of MTNL is however being supported by Gol. Gol through Department of Telecom (DoT) has provided Letter of Comfort stating that GOI will ensure timely payment of interest and repayments to Banks/FIs due from MTNL.

Key Rating Weaknesses

High employee cost leading to losses

MTNL has large employee base and the staff cost absorbs a very high percentage of the revenue of the company. MTNL's staff cost was about Rs.2276 crore in FY19 (Rs.2449 crore in FY18) which is around 88% of its total operating income in FY19 (around 80% in FY18). MTNL has a huge employee force which it inherited from Department of Telecom (DoT). 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 MTNL is mainly due to legacy issues, as many of its employees were inherited from DoT.

Gol, however as a part of revival plan of MTNL, has approved a VRS scheme with around 14500 employees opted for VRS (out of employee strength of around 19,500 as on November 30, 2019).

The entire amount of VRS to be given to these employees shall be borne by the Gol budgetary allocation & MTNL is not liable to pay any amount. Further, as significant numbers of employees are expected to retire in the next few years and as the pension liability of employees are already with government, this will lead to reduction in employee expenses in the coming years.

Analytical approach: Bank facilities: Credit enhancement in the form of 'Letter of Comfort' from Department of Telecom under Ministry of Communication and Information Technology, Government of India (GOI). The rating also factors in the Gol's majority stake (56.25% of the equity) in MTNL.

NCD Issues: 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 rating also factors in the Gol's majority stake (56.25% of the equity) in MTNL.

Applicable Criteria

[CARE's criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's policy on Default recognition](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios-Non Financial sector](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Mahanagar Telephone Nigam Limited (MTNL) was incorporated by Government of India (Gol) 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 September 30, 2019, MTNL has total subscriber base of 6.57 million consisting of 3.39 million wireless subscribers (0.29% market share) and 3.18 million wireline subscriber base (14.89% 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).

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3070.73	2575.37
PBILDT	-470.49	-733.62
PAT	-2973.45	-3390.19
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	NM

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN Number	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE153A08014	March 28, 2013	8.57%	March 28, 2023	1005.00	CARE AAA (CE); Stable
Debentures-Non Convertible Debentures	INE153A08022	December 05, 2013	8.57%	December 05, 2023	1975.00	CARE AAA (CE); Stable
Debentures-Non Convertible Debentures	INE153A08030	March 26, 2014	9.39%	March 26, 2024	765.00	CARE AAA (CE); Stable
Bonds	INE153A08048	November 19, 2014	8.24%	November 19, 2024	1,400.00	CARE AAA (CE); Stable
Bonds	INE153A08055	November 19, 2014	8.24%	November 19, 2024	100.00	CARE AAA (CE); Stable
Bonds	INE153A08063	November 19, 2014	8.24%	November 19, 2024	0.07	CARE AAA (CE); Stable
Bonds	INE153A08071	November 28, 2014	8.24%	November 28, 2024	2,268.90	CARE AAA (CE); Stable
Term Loan-Long Term	-	-	-	-	11350.00	CARE AA+ (CE); Stable
Term Loan-Short Term	-	-	-	-	1180.00	CARE A1+ (CE)
Fund-based - ST-Bank Overdraft	-	-	-	-	6830.00	CARE A1+ (CE)
Term Loan-LT/ST	-	-	-	-	2600.00	CARE AA+ (CE); Stable / CARE A1+ (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	-	0.00	CARE BBB; Stable / CARE A3

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017

1.	Debentures-Non Convertible Debentures	LT	2980.00	CARE AAA (CE); Stable	-	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)	1)CARE AAA (SO) (10-Oct-16)
2.	Debentures-Non Convertible Debentures	LT	765.00	CARE AAA (CE); Stable	-	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)	1)CARE AAA (SO) (10-Oct-16)
3.	Bonds	LT	3768.97	CARE AAA (CE); Stable	-	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)	1)CARE AAA (SO) (10-Oct-16)
4.	Term Loan-Long Term	LT	11350.00	CARE AA+ (CE); Stable	1)CARE AA+ (CE); Stable (25-Dec-19)	1)CARE AAA (SO); Stable (11-Mar-19)	-	-
5.	Term Loan-Short Term	ST	1180.00	CARE A1+ (CE)	1)CARE A1+ (CE) (25-Dec-19)	1)CARE A1+ (SO) (11-Mar-19)	-	-
6.	Fund-based - ST-Bank Overdraft	ST	6830.00	CARE A1+ (CE)	1)CARE A1+ (CE) (25-Dec-19)	1)CARE A1+ (SO) (11-Mar-19)	-	-
7.	Term Loan-LT/ST	LT/ST	2600.00	CARE AA+ (CE); Stable / CARE A1+ (CE)	1)CARE AA+ (CE); Stable / CARE A1+ (CE) (25-Dec-19)	1)CARE AAA (SO); Stable / CARE A1+ (SO) (11-Mar-19)	-	-
8.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB; Stable / CARE A3	1)CARE BBB; Stable / CARE A3 (25-Dec-19)	-	-	-

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

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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