

Mahanagar Telephone Nigam Limited

September 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Instruments (Bonds – Proposed)	6,500.00 ¹	CARE AAA (CE); Stable (Triple A (Credit enhancement); Outlook: Stable)	Assigned
Total facilities	6,500.00 ¹ (Rupees Six 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), supported by a structured payment mechanism.

Unsupported Rating ²	CARE BBB
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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 Mahanagar Telephone Nigam Limited (MTNL) 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 majority holding of Government of India (GoI (56.25% holding as on June 30, 2020), 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 rating 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.

MTNL 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 moratorium has been approved by the bankers of MTNL. 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.

Key Rating Sensitivities

Negative Sensitivities:

- Any change in GoI's ownership in MTNL or change in the focus/support from GoI to MTNL.
- 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 Sovereign Guarantee Bonds 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 will be put in place to ensure the timely payment of the interest & principal obligations on the bond issue through a tripartite agreement between MTNL, Trustee (M/s SBICAP Trustee Company Limited) and the GoI. The trustee will facilitate timely servicing of MTNL's obligations by DoT even if MTNL does not have sufficient funds to do so.

¹Complete definition of the ratings assigned are available at www.careratings.com and 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).

Following is the structured payment mechanism for the bond issue of Rs. 6,500.00 crore:

Trigger Date	Action Point
(T-30)th day*	Trustees to inform MTNL 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 MTNL 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.

As the company issued sovereign guarantee bonds earlier as well which also have trustee-monitored payment mechanism, this mechanism has already been tested. The key differences in the new mechanism are:

1. Last date by which GOI is to deposit requisite funds in the designated Trust and Retention Account as per the Notice of Invocation served by the trustees has now been moved up to T-3rd day, in the earlier mechanism it was T-1.

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 (GoI) holds the majority stake in MTNL (56.25% as on June 30, 2020). 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 (GoI)

Keeping in mind the legacy as well as strategically important nature of MTNL, GoI 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 (GoI) has provided Letter of Comfort (LOC) for ensuring timely payment of MTNL's bank borrowings.

Further, GoI 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 14387 employees opting for VRS. The ex gratia payout is also to be borne by the GOI. Also, for the allocation of 4G spectrum to MTNL, GoI will be infusing preference shares in MTNL 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. 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.

Liquidity

The liquidity profile of MTNL is adequate. The liquidity & financial profile of MTNL is being supported by GoI. 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 MTNL to sustain its market shares and to further attract new customers and intense competition within the industry. MTNL had a cash & bank balance of Rs 142.68 crore as on March 31, 2020. MTNL 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. After availing the moratorium, the debt obligations which are payable in FY21 are for Rs 9400.33 crore (including lease obligations). The current ratio stood at 0.50x as on March 31, 2020. Further, the company's liquidity position is expected to improve post conclusion of VRS resulting in savings of ~Rs. 1700 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 MTNL. Further, an amount of Rs. 25,000 crore has been approved in the annual general meeting of the company for bank borrowing & sovereign bonds sanctioned for capex & working capital borrowings in FY21, for which the presidential approval has been received on September 21, 2020. The bank borrowings are backed by LOC from GoI and the sovereign bonds are backed by unconditional & irrevocable guarantee from GoI.

Key Rating Weakness

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.2124 crore in FY20 (Rs.2272 crore in FY19) which is around 95% of its total operating income in FY20 (around 88% 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.

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 rating also factors in the GOI's majority stake (56.25% of the equity) in MTNL.

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

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 Mar 31, 2020, MTNL has total subscriber base of 6.45 million consisting of 3.36 million wireless subscribers (0.29% market share) and 3.09 million wireline subscriber base (15.30% 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)	FY19 (A)	FY20 (A)
Income from Operations	2575.37	2227.02
PBILDT	-733.62	-1011.10
PAT	-3390.19	-3695.68
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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Long-term Instruments (Bonds - Proposed)	-	-	-	6500.00	CARE AAA (CE); Stable

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.	Debentures-Non Convertible Debentures	LT	2980.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (03-Apr-20)	-	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)
2.	Debentures-Non Convertible Debentures	LT	765.00	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (03-Apr-20)	-	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)
3.	Bonds	LT	3768.97	CARE AAA (CE); Stable	1)CARE AAA (CE); Stable (03-Apr-20)	-	1)CARE AAA (SO); Stable (01-Oct-18)	1)CARE AAA (SO); Stable (06-Oct-17)
4.	Fund-based - LT-Term Loan	-	-	-	-	-	-	-
5.	Fund-based - LT-Bank Overdraft	-	-	-	-	-	-	-
6.	Fund-based - ST-Term loan	-	-	-	-	-	-	-
7.	Fund-based - LT-Term Loan	-	-	-	-	-	-	-
8.	Term Loan-Long Term	LT	11350.00	CARE AA+ (CE); Stable	1)CARE AA+ (CE); Stable (03-Apr-20)	1)CARE AA+ (CE); Stable (25-Dec-19)	1)CARE AAA (SO); Stable (11-Mar-19)	-
9.	Term Loan-Short Term	ST	1180.00	CARE A1+ (CE)	1)CARE A1+ (CE) (03-Apr-20)	1)CARE A1+ (CE) (25-Dec-19)	1)CARE A1+ (SO) (11-Mar-19)	-
10.	Fund-based - ST-Bank Overdraft	ST	6830.00	CARE A1+ (CE)	1)CARE A1+ (CE) (03-Apr-20)	1)CARE A1+ (CE) (25-Dec-19)	1)CARE A1+ (SO) (11-Mar-19)	-
11.	Term Loan-LT/ST	LT/ST	2640.00	CARE AA+ (CE); Stable / CARE A1+ (CE)	1)CARE AA+ (CE); Stable / CARE A1+ (CE) (03-Apr-20)	1)CARE AA+ (CE); Stable / CARE A1+ (CE) (25-Dec-19)	1)CARE AAA (SO); Stable / CARE A1+ (SO) (11-Mar-19)	-
12.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BBB; Stable / CARE A3	1)CARE BBB; Stable / CARE A3 (03-Apr-20)	1)CARE BBB; Stable / CARE A3 (25-Dec-19)	-	-
13.	Long-term Instruments (Bonds – Proposed)	LT	6500.00	CARE AAA (CE); Stable	-	-	-	-

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 (Bonds – Proposed)	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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