

Tata Teleservices (Maharashtra) Limited

March 20, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper issue	12,100 (enhanced form Rs.10,000 crore)	CARE A1+ (A One Plus) ; Credit Watch with Developing Implications	Continues on Credit Watch with Developing Implications

Details of instruments/facilities in Annexure-1

Other outstanding Ratings:

Facilities	Amount (Rs. crore)	Rating
Non-Fund Based Short Term Bank Facilities – BG/LC	209.00	CARE A1+ (A One Plus) ; Credit Watch with Developing Implications
Long Term - Cash Credit	120.00	CARE A+ (Single A Plus); Credit watch with developing implications
Total Bank Facilities	329.00 (Rs. Three Hundred and Twenty Nine Crore Only)	

Detailed Rationale & Key Rating Drivers

The ratings on the bank Commercial Paper (CP) issue of TTML [Tata Teleservices (Maharashtra) Limited] continue on **‘Credit Watch with Developing Implications’** on account of the announcement by TTSL (Tata Teleservices Limited) and TTML to combine their consumer telecom business with Bharti Airtel Limited.

The ratings on the CP issue of TTML continue to factor in the financial flexibility enjoyed by the company by virtue of being part of the Tata group characterized by demonstrated continued support from Tata Sons. Also, Tata Sons will work with Tata Tele (TTSL and TTML together referred as Tata Tele) in case the company needs to organize for any shortfall in liquidity, to meet external liabilities in timely manner, as may be required.

The rating strengths are, however, tempered by continued losses, high leverage position on account of significant debt funded capital expenditure and intense competition in the industry.

Ability of the company to timely complete the sale of its consumer telecom business and enterprise business, stem losses in the face of intense competition and continued support from the Tata Group remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strength

Continued demonstrated financial support from the Tata Group

TTML was established in 1995 as Hughes Ispat Limited and was acquired by the Tata group in 2002. TTSL and TTML together (Tata Tele) marked foray of the Tata group into the telecom sector. The company has been continuously receiving financial and managerial support from Tata Sons. The promoters have made large investments in the company to fund its losses as well as for capital expenditure. The ratings of Tata Tele centrally derive comfort from the support of Tata Sons.

Key Rating Weaknesses

Sub-optimal operating performance leading to continued losses

Tata Tele had announced the sale of its Consumer Mobile Business (CMB) to Bharti Airtel limited on cash-free and debt-free basis which had led to shift of subscribers from Tata Tele network to other networks. As on March 31, 2018, Tata Tele had a total subscriber base (wireless + wire line) of 33.07 Million as compared to previous year level of 50.749 Million. Further, as on December 31, 2018; the total subscriber base was 19 million. The decline in subscriber base has impacted the income from operations and profitability of Tata Tele.

Furthermore, Tata Tele may sell its enterprise business to Tata Communications Limited (TCL). The timely completion of the sale of CMB business and enterprise business is key rating monitorable.

High leverage position

The cash generation from the business operation continues to be negative. Also, the high losses incurred in the past have adversely impacted the networth of the company. Furthermore, the debt levels continue to be high. Despite infusion of funds by the promoters, Tata Tele's capital structure remains subdued. Further, during FY18 and 9M FY19, Tata Tele reported losses at the PBILDT (Profit Before Interest Lease Depreciation and Tax) level leading to subdued debt coverage

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

indicators. The ratings derive comfort from the parent support; i.e. Tata Sons as the business operations may continue to report losses in the medium term.

Liquidity Analysis

Tata Tele does not have long term debt and is currently funding its gap through working capital borrowings primarily through CP issues. Tata Tele had cash and cash equivalents of Rs.1648.75 crore as on December 31, 2018. Also, Tata Tele has the financial flexibility by virtue of being part of the Tata group characterized by demonstrated continued support from Tata Sons.

Highly competitive industry and regulatory uncertainties

The Indian telecom industry subscriber base growth has been flat. The increase in the subscriber addition of larger operators is primarily due to exit of the smaller players. However, the increase in subscribers have not brought proportionate incremental revenue to the telecom players on account of intense competition in the sector which had led to limited scope for increasing the tariffs. Development of new technologies and the rapid change in technology had led to increased challenges for the players with regards to return on investments in the current technology and additional investments in the new technology. Also, the telecom sector in India is also surrounded by regulatory uncertainties and Tata Tele remains susceptible to adverse regulatory changes. The government reduced termination charges for domestic calls from 14 paise to 6 paise and international calls from 53 paise to 30 paise has adversely impacted profitability of large incumbent players. The intense competition and regulatory uncertainties have further aggravated the losses of Tata Tele.

Analytical approach: Considering the operational and financial linkages, combined financials of TTSL and TTML are considered for analytical approach together referred to as Tata Tele. The ratings centrally derives comfort from parent support i.e. Tata Sons

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Mobile Service Provider](#)

[Financial ratios - Non-Financial sector](#)

[Rating methodology- Factoring Linkages](#)

[Policy on Withdrawal of ratings](#)

About the Company

Incorporated on March 13, 1995 as Hughes Ispat Ltd., Tata Teleservices (Maharashtra) Limited (TTML) was acquired by the Tata group in December 2002. As on September 30, 2018, the Tata Group holds 74.36% stake in TTML. Incorporated in 1995, Tata Teleservices Limited (TTSL) is a part of the Tata group, with Tata Sons Ltd holding 70.40% stake in the company as on September 30, 2018.

TTSL, along with TTML provides CDMA services in 19 telecom services, GSM services in 18 telecom circles and has launched 3G services in 9 circles. TTML is engaged in providing fixed wireline, wireless and mobile services in Maharashtra and Goa through two Unified Access (Basic and Cellular) Services Licenses, one for Mumbai circle and another for Rest of Maharashtra (including Goa) circle. TTML also holds the National Internet Service provider-Internet Telephony license.

Following are the brief financials of Tata Tele:

Brief Financials (Rs. crore)*	FY17 (Audited)	FY18 (Audited)
Net Sales	12,049	6,940
PBILDT	1,747	-656
PAT (Profit After Tax)	-6,983	-27,472
GCA (Gross Cash Accruals)	-4,331	-25,853
Overall Gearing	Negative	Negative
Interest Coverage	0.38	Negative

**The financials are adjusted as per CARE Standards*

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.

Analyst Contact:

Name: Ratnam Nakka

Tel: 91-22- 6754 3578

Email: ratnam.nakka@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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
Commercial Paper	26-Dec-18	8.11	27-Mar-19	1000.00	CARE A1+ (Under Credit watch with Developing Implications)
Commercial Paper	26-Dec-18	8.05	27-Mar-19	2834.90	CARE A1+ (Under Credit watch with Developing Implications)
Commercial Paper	27-Dec-18	8.05	27-Mar-19	1878.55	CARE A1+ (Under Credit watch with Developing Implications)
Commercial Paper	12-Feb-19	8.50	13-May-19	510.00	CARE A1+ (Under Credit watch with Developing Implications)
Proposed Commercial Paper	-	-	7-364 days	5876.55	CARE A1+ (Under Credit watch with Developing Implications)

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.	Term Loan-Long Term	LT	-	-	1)Withdrawn (05-Oct-18)	1)CARE A+ (Under Credit watch with Developing Implications) (10-Nov-17) 2)CARE A- (Under Credit watch with Developing Implications) (24-Oct-17)	1)CARE A-; Negative (27-Mar-17) 2)CARE A (01-Nov-16) 3)CARE A (04-Aug-16)	1)CARE A (14-Jul-15)
2.	Fund-based - LT-Cash Credit	LT	120.00	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (05-Oct-18)	1)CARE A+ (Under Credit watch with Developing Implications) (10-Nov-17) 2)CARE A- (Under Credit watch with Developing Implications) (24-Oct-17)	1)CARE A-; Negative (27-Mar-17) 2)CARE A (01-Nov-16) 3)CARE A (04-Aug-16)	1)CARE A (14-Jul-15)
3.	Non-fund-based - ST-Bank Guarantees	ST	209.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit watch with Developing Implications) (05-Oct-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (10-Nov-17) 2)CARE A2+ (Under Credit watch with Developing Implications) (24-Oct-17)	1)CARE A2+ (27-Mar-17) 2)CARE A1 (01-Nov-16) 3)CARE A1 (04-Aug-16)	1)CARE A1 (14-Jul-15)
4.	Fund-based-Short Term	-	-	-	-	-	-	-
5.	Fund-based/Non-fund-based-LT/ST	LT/ST	0.00	CARE A+ / CARE A1+ (Under Credit watch with Developing Implications)	-	1)CARE A+ / CARE A1+ (Under Credit watch with Developing Implications) (10-Nov-17) 2)CARE A- / CARE A2+ (Under Credit watch with	1)CARE A-; Negative / CARE A2+ (27-Mar-17) 2)CARE A (01-Nov-16) 3)CARE A (04-Aug-16)	1)CARE A (14-Jul-15)

						Developing Implications) (24-Oct-17)		
6.	Fund-based - ST-Term loan	ST	-	-	1)Withdrawn (05-Oct-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (10-Nov-17) 2)CARE A2+ (Under Credit watch with Developing Implications) (24-Oct-17)	1)CARE A2+ (27-Mar-17) 2)CARE A1 (01-Nov-16) 3)CARE A1 (04-Aug-16)	1)CARE A1 (14-Jul-15)
7.	Commercial Paper	ST	12100.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit watch with Developing Implications) (12-Dec-18) 2)CARE A1+ (Under Credit watch with Developing Implications) (05-Oct-18) 3)CARE A1+ (Under Credit watch with Developing Implications) (26-Jun-18)	1)CARE A1+ (Under Credit watch with Developing Implications) (22-Dec-17)	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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