

Mahanagar Telephone Nigam Ltd

Brickwork Ratings reaffirms the rating for bonds amounting to ₹ 6500 Crores of Mahanagar Telephone Nigam Ltd (MTNL or the company)

Particulars

| Instrument | Amount (₹ Crs) | | Tenure | Rating* | |
|--------------|----------------|-------------|--|---------------------------------|--|
| | Previous | Present | | Previous (3 Oct 2022) | Present |
| Bonds | 6500 | 6500 | Long Term | BWR AAA (CE)/Stable, Reaffirmed | BWR AAA (CE)/Stable Reaffirmation |
| Total | 6500 | 6500 | INR Six Thousand Five Hundred Crores Only | | |

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Note: The unsupported rating for the company’s bonds as on 3rd October, 2022 was downgraded to BWR C from BBB-/Stable

The unsupported rating for the bonds has been reaffirmed at BWR C in the present rating.

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has reaffirmed the rating of **BWR AAA (CE)/Stable** for the bonds amounting to Rs. 6,500 crs of Mahanagar Telephone Nigam Ltd (MTNL or the company).

The reaffirmation of the ratings assigned to the bonds issued by Mahanagar Telephone Nigam Limited (MTNL) factors in the credit enhancement for the same by way of an unconditional and irrevocable guarantee from the Government of India. The guarantee operates through a trustee-administered structured payment mechanism, for the timely transfer of required funds for the repayment of principal and interest, to a designated account, ensuring timely debt servicing. The Debenture Trustees have provided confirmation that this structured payment mechanism is working well, and payments are being made on time.

The rating also continues to draw strength from the company’s ownership (56.25% ownership by the GOI), strategic importance of the company to the government, and the existence of the structured payment mechanism for the servicing of dues to bondholders.

The outlook has been maintained at **Stable** as the company is expected to continue receiving support from the GoI in future as well.

BWR has reaffirmed the **Unsupported ratings** of the company at **BWR C** due to complete erosion of its net worth, continuous weak financial and operational performance, its categorisation as an “incipient sick CPSE” by Department of Public Enterprises and Department of Telecommunications, and the fact that it is considered to be a going concern only on account of government support.

Key rating drivers of Mahanagar Telephone Nigam Limited

The reaffirmation of the ratings assigned to the Bonds of MTNL takes into account the irrevocable and unconditional guarantee of the Government of India for servicing its bond obligations with a structured payment mechanism, as well as the past support provided by the Government for timely servicing its debt obligations which is expected to continue in the future. It also factors in the majority ownership of the GoI (56.25% as on March 31, 2023), the strategic importance of the company to the Government, and the successful completion of Government guaranteed bond raising of ₹10910 crores during FY 2022-23 and Rs 6105 Cr so far in FY 2023-24, which have helped in improving the liquidity position of the company.

The rating strengths are, however, constrained by the company's continuous weak operational and financial performance on a standalone basis, the qualified opinion of the Statutory Auditors, and the growing challenges of a competitive market, compounded by a diminishing customer base.

Credit Strengths:-

Availability of Sovereign Guarantee for Bonds: The GoI has provided a sovereign guarantee for the bonds via a guarantee deed dated 9 September 2020, covering both the principal and normal interest due to bondholders. The guarantee is irrevocable, unconditional and enforceable.

Structured Payment Mechanism for Bonds: The bonds also have a structured payment mechanism to ensure the timely payment of dues to bondholders. MTNL has opened a designated Trust and Retention Account (TRA), monitored by a Debenture Trustee (DT), through which payments are being made to the bondholders.

Ownership and Strategic Importance: MTNL's majority ownership is with the GoI, with demonstrated support from the GoI in the form of providing guarantees for the company's debt. Additionally, the company is of strategic importance to the government, considering that it is one of the only two public sector undertakings in the telecom sector.

Additional Fund raising through GOI guaranteed bonds: The additional funds raised to the tune of Rs.10910 crores in FY 2022-23 and Rs 6105 Cr so far in FY 2023-24 have helped in improving the liquidity position of the company. The balance amount of ~Rs.556 Crores of bonds guaranteed by the Government is yet to be raised.

Credit Risks:-

Current Weak Operational and Financial Performance: The company has been continuously reporting considerable net losses, and its net worth is fully eroded. The company's major revenue comes from landline users, and with the gradual reduction in the usage of landline services, revenues have been coming down continuously.

Qualified opinion of the Auditors - The impact on the financials of the company due to the qualifications in the Audit Report, is not ascertainable, as per the Statutory Auditors.

Key rating drivers for the Unsupported rating:

The following factors have been considered for reaffirming the Unsupported ratings of **BWR C** for the bonds issued by the company

- (i) Complete erosion of its net worth through recurring PAT losses year after year
- (ii) Gradual deterioration in operating performance of the company and continuation of weak financial risk profile.
- (iii) Categorisation of the company as an Incipient Sick CPSE” on a standalone basis
- (iv) Continuation of going concern status only on account of the Government support.

However, MTNL continues to be supported by the Government of India to raise funds through bonds guaranteed by the Government, thereby ensuring sufficient liquidity for the company to service its repayment obligations.

BWR has relied on the company’s standalone audited financial statements of FY23 and unaudited financial statements of H1FY24, the Statutory Auditors’ reports, feedback from the Debenture Trustees, as well as information on the company available in the public domain, to arrive at the present ratings.

Analytical Approach - Standalone, with the Government support factored in.

The consolidated results of MTNL include the results of one Associate company, one Joint Venture, two Wholly Owned Subsidiaries and two Step Down Subsidiaries, which together account for a very small percentage of the consolidated topline as well as the balance sheet. Accordingly, a standalone approach has been adopted, factoring in the Government support.

Profile of CE provider:

Government of India - by way of irrevocable, unconditional and enforceable guarantee for the payment of interest and principal of the rated bonds.

Salient features and key covenants of the rated Bonds

| Particulars | Details |
|------------------------------|---|
| Issuer | Mahanagar Telephone Nigam Ltd |
| Issue Size | Two tranches of Rs. 4361.40 Crs and Rs. 2138.60 Crs respectively |
| Type of Instrument | GoI Guaranteed, redeemable, taxable and Listed NCDs |
| Face Value | Rs. 10 Lakhs each |
| Mode of Issue | Private Placement |
| Coupon Rate | 7.05% for tranche I and 6.85% for tranche II |
| Principal repayment | Bullet payment at the end of the term |
| Coupon Payment | Semi annually |
| Objects of the Issue | Refinancing of existing debt |
| Tenor | 10 years |
| Terms of Guarantee | Unconditional and Irrevocable guarantee and continuing obligation for payment of principal amount of the Bonds issued by the company, accrued Interest thereon and any other amount due towards the Bond Holders |
| Structured Payment Mechanism | The company will open a designated Trust & Retention Account (TRA) - Bond Account in which the required funds will be deposited by the company (as per the agreed mechanism) towards interest and principal amount. Details of the structured payment mechanism are given below |
| Put/Call Option | None |

Adequacy of Credit Enhancement structure

GoI has provided a guarantee for the rated bonds, which is irrevocable, unconditional and enforceable. The timely payment of principal and periodic interest obligations against these bonds is ensured through a well-defined T-structure administered by the Trustees, who ensure timely servicing of repayment obligations under these bonds.

The following is the structured payment mechanism for the bond issue of ₹6,500 crore (fully subscribed):

| 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 can 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 the GoI. |
| (T-3)rd day* | The last date by which the GoI is to deposit the 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. In the event of the mentioned day not being a business day, it will be taken to indicate the next business day.

Rating Sensitivities

Foe Credit Enhanced rating:

Upward - Not applicable

Downward - Adverse change in the terms of the Government support, and the company’s inability to ensure timely debt servicing, deterioration in financial parameters

For Standalone (Unsupported) rating

Upward: Significant improvement in the financial parameters and reversal of the trend of decline in subscriber base

Downward: Any adverse change in the terms of the Government support, major loss of subscribers, dilution in the expected support from the GoI and occurrence of delays / defaults in debt servicing

Liquidity Position: Adequate

The liquidity profile is supported by the irrevocable and unconditional guarantee of the GoI for payment of principal and interest on the bonds, and is therefore considered adequate. Comfort is also derived from the trustee administered mechanism and well defined T-structure for ensuring timely coupon and principal payments of the government guaranteed bonds. The proposed additional bond issuance backed by sovereign guarantee, is expected to provide further liquidity support for debt servicing in the near future.

Company Profile

Mahanagar Telephone Nigam Limited (MTNL) was set-up on 1 April 1986 by the GoI to upgrade the quality of telecom services, expand the telecom network, introduce new services and raise revenue for the telecom development needs of India's key metro cities of Delhi and Mumbai. MTNL is the principal provider of fixed-line telecommunication services in Delhi and Mumbai. It offers mobile services in Delhi, including four peripheral towns, namely Noida, Gurgaon, Faridabad and Ghaziabad, and Mumbai, along with areas falling under the Mumbai Municipal Corporation, New Mumbai Corporation and Thane Municipal Corporation. The company is listed on both the BSE and NSE.

Key Financial Indicators (Standalone)

| Particulars | Units | H1FY24(Unaudited) | FY23 (A) | FY22 (A) |
|-------------------------|---------|-------------------|-----------|-----------|
| Revenue from Operations | Rs. Crs | 366.56 | 809.68 | 1069.72 |
| EBITDA | Rs. Crs | -288.07 | -450.00 | -324.61 |
| PAT | Rs. Crs | -1642.82 | -2910.74 | -2602.59 |
| Total Debt | Rs. Crs | 29068.73 | 28174.01 | 26606.47 |
| Tangible Net Worth | Rs. Crs | -24165.42 | -22979.86 | -21160.24 |

Note: All financials have been reclassified as per BWR standards.

Non-cooperation With Previous Rating Agency If Any: No INC rating with other CRA

Any other information: NA

Rating History for the past three years (including suspended/withdrawn ratings)

| Instrument | Current Rating (2023) | | | Rating History | | |
|--------------|-----------------------|----------------|--|--|--|---|
| | Tenure | Amount (₹ Crs) | Rating | 2022 | 2021 | 2020 |
| | | | | (03 Oct 2022) | (14 Oct 2021) | (21 Sept 2020) |
| Bonds | Long Term | 6500 | BWR AAA (CE)/Stable, Reaffirmed (Unsupported ratings- BWR C), Reaffirmed | BWR AAA (CE)/Stable, Reaffirmed (Unsupported ratings- BWR C), Downgraded | BWR AAA (CE)/Stable, Reaffirmed (Unsupported ratings- BWR BBB-/Stable), Reaffirmed | BWR AAA (CE)/Stable, Assigned (Unsupported ratings - BWR BBB-/Stable), Assigned |
| Total | | 6500 | INR Six Thousand Five Hundred Crores Only | | | |

Complexity Levels Of The Instruments: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference To Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Rating based on Government Support](#)
- [Credit Enhancement](#)
- [Default Recognition and post Default curing period](#)

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Mahanagar Telephone Nigam Ltd

Annexure I - Details of Rated Bonds

| Instrument | ISIN | Amount (Rs. Crs) | Date of Issue | Date of Maturity | Coupon Rate |
|------------|--------------|------------------|---------------|------------------|-------------|
| Bonds | INE153A08089 | 4361.40 | 12 Oct 2020 | 11 Oct 2030 | 7.05% |
| Bonds | INE153A08097 | 2138.60 | 21 Dec 2020 | 20 Dec 2030 | 6.85% |



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