

Mahanagar Telephone Nigam Ltd

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

Instrument**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (15 Nov 2023)	Present
Bonds	6500.00	6500.00	Long Term	BWR AAA (CE)/Stable Reaffirmation	BWR AAA (CE)/Stable Reaffirmation
Total	6500.00	6500.00	Rupees Six Thousand Five Hundred Crores only		

Particulars: The rating with the symbol CE is based on an unconditional, irrevocable, and legally enforceable guarantee from the Government of India (GoI) for the timely payment of debt obligations. Additionally, these bonds have a structured payment mechanism, including a defined payment mechanism with the maintenance of a Trust & Retention Account (TRA).

Unsupported rating	BWR D (downgraded from BWR C)
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Note: Unsupported rating does not factor in the explicit credit enhancement.

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

** Details of the Bonds are provided in Annexure-II

RATING ACTION / OUTLOOK

The reaffirmation of the ratings assigned to the bonds issued by Mahanagar Telephone Nigam Limited (MTNL) factors in the credit enhancement by way of an unconditional, irrevocable, and legally enforceable guarantee from the Government of India (GoI). The guarantee operates through a trustee-administered structured payment mechanism for the timely transfer of required funds towards payment of principal and interest to a designated account, ensuring timely debt servicing. The Debenture Trustee has confirmed 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) and its strategic importance to the GoI.

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 downgraded the unsupported/standalone rating of the company from BWR C to BWR D factoring in the declaration of default by the company on 05 Jul 2024 on the Indian stock exchanges on the payment of interest and principal of various bank loan facilities due on 30 Jun 2024. BWR continues to factor in the complete erosion of the company’s net worth, continuous weak financial and operational performance, its categorisation as an “incipient sick CPSE” by the Department of Public Enterprises and the Department of Telecommunications, and the fact that it is considered to be a going concern only on account of government support.

ADEQUACY OF CREDIT ENHANCEMENT STRUCTURE

BWR has assessed the attributes of availability of an unconditional, irrevocable, and legally enforceable guarantee for principal and interest as a continuing obligation by GoI. In case the company fails to fund the designated Trust & Retention Account (TRA) to the tune of the interest/principal obligations on the Bonds, GoI shall deposit the requisite funds in the designated TRA as per the Notice of Invocation served by the Trustee as per the terms of the Guarantee Agreement signed by GoI, Trustee (SBICAP Trustee Company Limited), and the company.

KEY COVENANTS OF THE INSTRUMENTS RATED

- Issuer: Mahanar Telephone Nigam Limited (MTNL)
- Issue Size: Two tranches of Rs. 4361.40 Crs. (Tranche I) and Rs. 2138.60 Crs. (Tranche II) respectively.
- Type of Instrument: GoI Guaranteed, Unsecured, Rated, Listed, Redeemable, Non-Convertible, Taxable Bonds in the nature of Debentures.
- Face Value: Rs. 10,00,000/- only each.
- Interest Rate: Fixed (7.05% for Tranche I and 6.85% for Tranche II), to be paid semi-annually.
- Objects of the Issue: Refinancing of the existing debt.
- Tenor: 10 years; bullet repayment of the principal at the end of the tenor.
- Backed by an unconditional, irrevocable, and legally enforceable guarantee from the GoAP.
- Maintenance of Trust & Retention Account (TRA) as part of the structured payment mechanism to ensure timely payment of Bonds' coupon and principal as and when due.
- Under the mechanism, the Trustee is to inform MTNL and GoI in writing on the T-30th day regarding the due date for payment of the interest/principal amount so that the necessary arrangements can be made for meeting the interest/principal payment obligations on the Bonds. (T is the due date of interest payment/principal repayment)
- By the T-10th day, the designated TRA is to be funded by MTNL to the tune of the interest/principal obligations on the Bonds.
- If the designated TRA is not funded to the requisite extent by the T-8th day, the Trustees shall forthwith invoke the GoI Guarantee by sending a Notice of Invocation to GoI.
- The T-3rd date is the last date by which GoI shall deposit requisite funds in the designated TRA as per the Notice of Invocation served by the Trustees.
- Put/Call Option: No.
- Both the Bonds (ISINs: INE153A08089; INE153A08097) are listed on BSE.

KEY RATING DRIVERS

Credit Strengths:-

- **Guarantee and support by GoI:** The GoI has provided a sovereign guarantee for the bonds via a guarantee deed dated 09 Sep 2020, covering both the principal and normal interest due to bondholders. The guarantee is irrevocable, unconditional and legally enforceable.



- **Availability of a well-defined Structured Payment Mechanism:** 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

Credit Risks:-

- **Weak financial and operational performance:** The company has been continuously reporting considerable net losses, and its net worth has 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.

ANALYTICAL APPROACH - Credit Enhancement

For arriving at unsupported ratings, BWR has considered the standalone financials of MTNL. The CE rating derives credit enhancement from the unconditional, irrevocable, and legally enforceable guarantee from the GoI.

RATING SENSITIVITIES:

Upward: Not applicable

Downward:

- Non-adherence of the trustee-administered structured payment mechanism

LIQUIDITY INDICATORS - Adequate

On a standalone basis, the company's liquidity is poor as manifested by the default on bank loan obligations on 30 Jun 2024. However, for BWR-rated bonds, comfort is drawn from the unconditional, irrevocable, and legally enforceable guarantee of GoI for timely principal repayment and normal interest payment.

ABOUT THE ENTITY

Macro Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Telecom - Cellular & Fixed Line Services

Mahanagar Telephone Nigam Limited (MTNL) was set up on 01 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 - ISSUER: Standalone

Key Parameters	Unit	FY22	FY23	FY24	Q1FY25
		Audited	Audited	Audited	Unaudited
Total Operating Income	Rs. Crs.	1069.72	861.57	728.47	NA
EBITDA	Rs. Crs.	-324.61	-450.00	-529.65	NA
PAT	Rs. Crs.	-2602.59	-2910.74	-3302.19	NA
TNW	Rs. Crs.	-21160.24	-22979.86	-25406.38	NA
Total Borrowings	Rs. Crs.	26606.47	28174.01	30027.82	NA

Note: All figures and ratios have been adjusted as per BWR standards.

NA = Not Available.

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

Instrument	Current Rating (July 2024)			Rating History						
	Type	Tenure	Amount (Rs. Crs.)	Rating	2023		2022		2021	
					Date	Rating	Date	Rating	Date	Rating
Bonds	Long Term	6500.00	BWR AAA (CE)/Stable Reaffirmation Unsupported: BWR D Downgrade	15 Nov 2023	BWR AAA (CE)/Stable Reaffirmation Unsupported: BWR C Reaffirmation	03 Oct 2022	BWR AAA (CE)/Stable Reaffirmation Unsupported: BWR C Downgrade	14 Oct 2021	BWR AAA (CE)/Stable Reaffirmation Unsupported: BWR BBB-/Stable Reaffirmation	
Total		6500.00	Rupees Six Thousand Five Hundred Crores Only							

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY (IF ANY): No non-cooperation from any other CRA.

HYPERLINK/REFERENCE TO APPLICABLE CRITERIA

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Credit Enhancement](#)
- [Rating Based on Government Support](#)
- [Default Recognition and Post-Default Curing Period](#)

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MAHANAGAR TELEPHONE NIGAM LIMITED
ANNEXURE-I
Details Of Bank Facilities Rated By BWR

Sl. No.	Name of the Bank/Lender	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)	Complexity of the Instrument*
	Nil	Nil	Nil	Nil	Nil	NA
		TOTAL	Nil	Nil	Nil	
	Total Nil					

*For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

ANNEXURE-II
INSTRUMENT DETAILS

Instrument	Issue Date	Amount (Rs. Crs.)	Coupon Rate	Maturity Date	ISIN Particulars	Complexity of the Instrument*
Bonds	12 Oct 2020	4361.40	7.05%	11 Oct 2030	INE153A08089	Simple
Bonds	21 Dec 2020	2138.60	6.85%	20 Dec 2030	INE153A08097	Simple
	Total	6500.00	Rupees Six Thousand Five Hundred Crores Only			

*For more information, visit

www.brickworkratings.com/download/ComplexityLevels.pdf

ANNEXURE-III
List of entities consolidated

Name of Entity	% Ownership	Extent of consolidation	Rationale for consolidation
Nil	Nil	Nil	Nil



Print and Digital Media

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