



MAHANAGAR TELEPHONE NIGAM LIMITED

(A GOVERNMENT OF INDIA ENTERPRISE)

CIN L32101DL1986GOI023501

Registered and Corporate Office: Mahanagar Doorsanchar Sadan 5th Floor, 9 CGO Complex, Lodhi Road, New Delhi - 110 003. Tel: 011-24319020, Fax: 011-24324243, Website: www.mtnl.net.in / www.bol.net.in

MTNL/SECTT/SE/2023

July 12, 2023

To

The Listing Department,
Bombay Stock Exchange (BSE)
National Stock Exchange (NSE)

Ref: BSE Scrip Code: 500108/ NSE Symbol: MTNL

SUB: ANNOUNCEMENT UNDER REGULATION 30 & 51(2) OF SEBI (LODR), 2015- INTIMATION REGARDING THE PRESS RELEASE AND CREDIT RATING LETTER OF MTNL ISSUED BY INDIA RATINGS & RESEARCH PRIVATE LIMITED - reg

Dear Sir,

In compliance of Regulation 30 & 51(2) of SEBI (LODR), 2015, kindly find attached Press Release of India Ratings & Research Private Limited dtd July 11th, 2023 on the subject "**India Ratings Rates Mahanagar Telephone Nigam's Proposed NCDs and Affirms Existing Rating at 'INDAAA (CE)/Stable'**". (Copy of Press release attached for kind information.)

Kindly also find attached Credit Rating letter dtd 11.07.2023 issued by India Ratings & Research Private Limited. (Copy of Credit Rating letter attached for kind information.)

This Press Release and Credit Rating letter is with reference to proposed NCDs of MTNL of Rs 6,661 Crores in tranches backed by Sovereign Guarantee of Government of India.

This is for your information and kindly take the same on record.

The above information will also be available on the website of the Company

Thanking You

Yours Faithfully,

For Mahanagar Telephone Nigam Limited

**RATAN MANI SUMIT
COMPANY SECRETARY**

India Ratings Rates Mahanagar Telephone Nigam's Proposed NCDs and Affirms Existing Rating at 'IND AAA(CE)'/Stable

Jul 11, 2023 | Telecom - Cellular & Fixed line services

India Ratings and Research (Ind-Ra) has taken the following rating actions on Mahanagar Telephone Nigam Limited's (MTNL) non-convertible debentures (NCDs):

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
NCDs#	-	-	-	INR109.1	IND AAA(CE)/Stable	Affirmed
Proposed NCDs*	-	-	-	INR66.61	IND AAA(CE)/Stable	Assigned
Unsupported rating^	-	-	-	-	IND B-/Stable	Affirmed

#details in annexure

*Yet to be placed

^Ind-Ra has assigned the unsupported rating in compliance with the Securities and Exchange Board of India's circular dated 13 June 2019, which requires credit rating agencies to disclose unsupported rating without factoring in the explicit credit enhancement (CE) and supported rating after factoring in the explicit CE.

Analytical Approach: The ratings continue to factor in MTNL's strong legal and operational linkages with MTNL's parent, the government of India (GoI; 56.25% stake).

Key Rating Drivers

NCD Rating Underpinned by GoI Guarantee: The rating reflects the absolute, unconditional and irrevocable pre-default guarantee extended by the government of India (GoI) for the timely repayment of principal and interest on the rated NCDs. It is a continuing guarantee and shall remain in force and effect until the full tenure of NCDs. All payments pertaining to the servicing of bonds will be deposited into a designated trust & retention account. The account is operated through a trustee-monitored payment mechanism to ensure servicing of the bond obligations on-or-before the payment due date. A tri-patriate guarantee agreement has been signed between the Department of Telecommunications (on behalf of the President of India), debenture trustee (Beacon Trusteeship Ltd) and MTNL, wherein the GoI has to obtain all consents, approvals and permissions as are necessary for the enforceability of the agreement.

Liquidity Indicator – Adequate; Supported by Strong Parentage: Ind-Ra believes MTNL's liquidity for the NCDs is supported by the trustee-monitored pre-default payment mechanism. According to the tri-patriate guarantee agreement, the liability of bond constitutes a direct and general obligation of the GoI.

Historically, MTNL's cash flows have not been adequate to support its debt servicing. On a consolidated basis, MTNL had moderate cash levels of INR3.2 billion as on 31 March 2023 and the average utilisation of the fund-based bank lines was around 80% for the nine months ended 30 June 2023.

However, it has been using the financial support received from the GoI by way of either sovereign guarantee or letters of comfort (LoC) to raise debt. The liquidity is also supported by the company's latest bond issuances of INR109.1 billion in 2HFY23 and the proposed bond issuance of INR66.6 billion in FY24. The bond issuances are part of the total proposed issuances of INR176 billion as per the revival plan. The repayment of the already guaranteed bonds and the bank debt from these issuances have reduced the unguaranteed proportion of debt (backed/ not backed by LoC), and on the successful completion of planned issuances in FY24, the agency expects the unguaranteed proportion of debt (backed/ not backed by LoC) to reduce further. The agency also expects asset monetisation and/or support from the government to further support the liquidity position.

Strong Linkages with GoI: The GoI directly owns 56.25% of MTNL, and the latter's total debt as on 31 March 2023 was either secured through a pre-default guarantee structure by the former or backed by the LoC issued by the Department of Telecommunications. Also, the GoI through Administrative Ministry appoints all the board of directors and key management personnel of MTNL. MTNL was set up by the GoI to provide telecommunication services in Delhi and Mumbai. Over the years, the GoI has been providing various kinds of financial and non-financial support to MTNL, which is factored into the ratings. However, the company has been classified as 'incipient Sick CPSE' by the GoI.

Revival Plan of MTNL: In July 2022, the union cabinet approved a revival plan for MTNL to make the company financially viable. A few measures are as follows:

- i. Raise long-term bonds of INR176 billion backed by a sovereign guarantee for the repayment of debt
- ii. A committee of secretaries is formed to recommend the way forward for the merger of Bharat Sanchar Nigam Limited (BSNL; NCDs: IND AAA(CE)/Stable, Unsupported rating: IND BBB/Stable) and MTNL. The GoI would provide support of INR16 billion.
- iii. Sanctioning capex of INR225 billion for three years through equity infusions in BSNL, which includes capital expenditure of INR19 billion for MTNL as well.

Moderate Market Positioning: MTNL caters to a wide range of customers through its offerings which can be broadly divided into fixed telephone line, enterprise business and mobile business. According to the Telecom Regulatory Authority of India, MTNL has a total wireline subscriber base of 2.3 million spread across Delhi and Mumbai, with a market share of 25% in Delhi in April 2023 (March 2022: 33%) and 37% in Mumbai (45%). MTNL's wireline subscriber base and market share have been coming down since FY15 due to intensifying competition from the 4G wireless technology. MTNL had a rather small wireless subscriber base of 2.1 million in April 2023 (3.2 million in March 2022).

Weak Financial Profile: MTNL's total revenue continued to decline in FY23, falling to INR9.4 billion (FY22: INR11.5 billion; FY21: INR13.9 billion; FY20: INR16.2 billion), primarily due to the decrease in the subscriber base. MTNL's debt service coverage ratios remain weak owing to continued operating losses over the last few years (FY23: loss of INR4.5 billion; FY22: loss of INR3.2 billion; FY21: profit of INR0.6 billion; FY20: loss of INR14.6 billion). Additionally, the gross debt increased to INR283.5 billion at end-FY23 (end-FY19: INR197.4 billion). EBITDA and gross debt numbers are as per Ind-Ra's calculations.

Delays in Debt Servicing: MTNL had announced that it has defaulted in making interest payments pertaining to one of its term loans which was due on 31 July 2022. The same was due to a temporary cash flow mismatch as confirmed by the management and the outstanding interest payment was made on 9 September 2022. Such timing mismatch implies the weak internal financial control of MTNL. The liquidity situation has improved slightly post MTNL's issuance of INR109.1 billion of GoI-guaranteed bond in 2HFY23, proceeds of which were used to repay the debt.

Competitive, Technological and Regulatory Risk: The domestic telecom landscape has remained extremely

competitive and dynamic. After witnessing a significant erosion over FY17-FY19, industry-wide average revenue per user showed some recovery from FY20. Incumbents are likely to protect any major subscriber loss by offering attractive tariffs and better services. The industry has seen frequent changes in technologies as well as regulatory policies, which may make some of the investments redundant. Ind-Ra will continue to monitor the regulatory and technological landscape in the Indian telecom industry.

Rating Sensitivities

For CE Rating:

Negative: Non-adherence to the trustee-monitored structure payment mechanism by any of the parties involved in the transaction.

For Unsupported Rating:

Positive: Developments that could, individually or collectively, lead to a positive rating action include:

- strengthening of MTNL's linkages with the Gol
- better-than-expected improvement in the credit metrics, including debt service coverage ratio

Negative: Weaker-than-expected operational profitability or higher-than-expected capital expenditure or lower-than-expected financial support from the Gol on a sustained basis leading to weak credit metrics could lead to a negative rating action.

ESG Issues

ESG Factors Relevant to Rating: Internal financial control under the financial transparency has relevance to and large impact on MTNL's credit rating. MTNL's auditors have provided a qualified opinion on its internal financial control.

Except the above, other ESG issues are credit neutral or have only a minimal credit impact on MTNL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

Company Profile

MTNL was incorporated by the 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's operations span across various telecom services including fixed telephone line, Broadband, GSM, Internet, ISDN and leased line services.

FINANCIAL SUMMARY

Particulars*	FY23	FY22
Operating revenue (INR billion)	9.4	11.5
EBITDA (INR billion)	-4.5	-3.2
EBITDA margin (%)	-47.7	-27.7
Interest expense (INR billion)	23.5	21.4
Gross debt (INR billion)	283.5	268.2

Source: Ind-Ra, MTNL

*EBITDA and gross debt are as per Ind-Ra's calculations

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (billion)	Rating	17 May 2023	1 November 2022
NCDs	Long-term	INR175.71	IND AAA(CE)/Stable	IND AAA(CE)/Stable	IND AAA(CE)/Stable
Unsupported rating	Long-term	-	IND B-/Stable	IND B-/Stable	IND B-/Stable

Annexure

Annexure I: Payment Structure for Bonds

The following payment structure (wherein T is assumed to be the due date for interest and/or principal payments) is envisaged for meeting the obligations on the rated bonds.

Interest and/or Principal payment

Trigger Date	Action Point
(T-30)th day	The trustees to inform MTNL and the Gol in writing regarding the due date for payment of interest and/or principal amount so that the necessary arrangements could be made for meeting the interest and/or principal payment obligations on the bonds.
(T-10)th day	The designated trust and retention account is to be funded by MTNL to the tune of the interest and/or 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 Gol guarantee by sending a notice of invocation to the Gol.
(T-3)th day	Last date by which the Gol shall deposit requisite funds in the designated trust and retention account as per the notice of invocation served by the trustees.

Annexure II: Covenants for Bonds

N/A

Annexure III:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCD	INE153A08105	15 November 2022	8.00	15 November 2032	INR61,096	IND AAA(CE)/Stable
NCD	INE153A08113	01 December 2022	7.87	01 December 2032	INR27,579	IND AAA(CE)/Stable
NCD	INE153A08121	10 February 2023	7.78	10 February 2033	INR16,176	IND AAA(CE)/Stable
NCD	INE153A08139	24 February 2023	7.80	24 February 2033	INR3,615	IND AAA(CE)/Stable
NCD	INE153A08147	24 March 2023	7.75	24 March 2033	INR634	IND AAA(CE)/Stable

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Contact**Primary Analyst**

Divyanka Bhutada

Senior Analyst

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Priyanka Bansal

Associate Director

+91 22 40356148

Chairperson

Abhishek Bhattacharya
Senior Director and Head Large Corporates
+91 22 40001786

Media Relation

Ameya Bodkhe
Marketing Manager
+91 22 40356121

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

The Rating Process

Corporate Rating Methodology

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Mr. Rajiv Kumar
Director (Finance)
Mahanagar Telephone Nigam Limited
4th Floor, Door Sanchar Sadan,
9, CGO Complex, Lodhi Road,
New Delhi-110003

July 11, 2023

Dear Sir/Madam,

Re: Rating Letter for NCD of Mahanagar Telephone Nigam Limited

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#details in annexure

*Yet to be placed

[^]Ind-Ra has assigned the unsupported rating in compliance with the Securities and Exchange Board of India's circular dated 13 June 2019, which requires credit rating agencies to disclose unsupported rating without factoring in the explicit credit enhancement (CE) and supported rating after factoring in the explicit CE.

In issuing and maintaining its ratings, India Ratings relies on factual information it receives from issuers and underwriters and from other sources India Ratings believes to be credible. India Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security.

The manner of India Ratings factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in India where the rated security is offered and sold, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of India Ratings ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information India Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to India Ratings and to the market in offering documents and other reports. In issuing its ratings India Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or

conditions that were not anticipated at the time a rating was issued or affirmed.

India Ratings seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings



Dr Devendra Pant
Senior Director

Annexure: Facilities Breakup

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCD	INE153A08105	15 November 2022	8.00	15 November 2032	INR61,096	IND AAA(CE)/Stable
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AKSant