

Tata Teleservices (Maharashtra) Limited

December 22, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Proposed Commercial Paper	6,500	CARE A1+ (A One Plus) ; Credit Watch with Developing Implications	Assigned; Placed on Credit Watch With Developing Implications
Total	6,500 (Rs. Six Thousand Five Hundred Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings on the CP issue of TTML [Tata Teleservices (Maharashtra) Limited] are placed 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 assigned to the Commercial Paper (CP) issue of TTML factors in the 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 it 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 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 referred as Tata Tele) marked foray of the Tata group into the telecom sector. Tata Tele has been continuously receiving financial and managerial support from Tata Sons. The promoters have made large investments in Tata Tele to funds its losses as well as for capital expenditure. Along with the announcement of the deal with Bharti Airtel for the sale of its consumer wireless business on a cash free debt free basis, Tata Sons has committed to infuse in FY18, Rs. 20,000 crore into Tata Tele to largely repay a part of its term loans as well as to meet its other liabilities. 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

As on March 31, 2017, Tata Tele had a total wireless subscriber base of 48.9 Million as compared to previous year level of 60.01 Million. The decline in subscriber base and lower ARPU's on account of increased competition impacted the income from operations and profitability of Tata Tele. During FY17, the revenue from operations of Tata Tele declined by around 11% on y-o-y basis and continued losses at the PAT level. Tata Tele may continue to report losses in the medium term considering the intense competition in the industry. Further, as on October 31, 2017; the total subscriber base was 40.20 million.

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

High leverage position

Tata Tele, as any other telecom service provider, requires significant funding on an on-going basis for managing its telecom infrastructure. Major portion of this cost is funded by way of debt. Though the company has slowed down its operational expenditures in view of the on-going uncertainties, given its loss making operations, the capital structure is expected to remain highly leveraged in the near term. Also, the interest coverage is below unity and cash generation continues to be negative. The high losses incurred in the past have adversely impacted the networth of the company. Furthermore Tata Tele has bulky repayments over the next 5 years. 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.

Highly competitive industry and regulatory uncertainties

The Indian telecom industry has grown remarkably in terms of subscriber base; however, the additional subscribers have not brought proportionate incremental revenue to the telecom players on account of intense competition in the sector which had led to limited space for increasing the tariffs. The telecom sector in India is also surrounded by regulatory uncertainties and Tata Tele remains susceptible to adverse regulatory changes. Also, with the entry of the new operator offering telephony services at low prices has further increased the competitive intensity of the telecom sector in India thereby leading to continued pressure on the profitability of Tata Tele in the medium term.

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.

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector](#)

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

[Rating methodology- Factoring Linkages](#)

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, 2017, the Tata Group holds 62.60% stake in TTML while NTT Docomo INC holds 11.76%. 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, and provides telecommunication services using both Code Division Multiple Access (CDMA) technology and Global System for Mobile Communications (GSM) technology under the aforesaid licenses. TTML also holds the National Internet Service provider-Internet Telephony license. Incorporated in 1995, Tata Teleservices Limited (TTSL) is a part of the Tata group, with Tata Sons Ltd holding 47.91% stake and NTT Docomo INC holding 21.63% in the company as on September 30, 2017.

Following are the brief financials of Tata Tele:

Brief Financials (Rs. crore)	FY16 (Audited)	FY17 (Audited)
Total operating income	13,603	12,216
PBILDIT	2,442	1,747
PAT (before exceptional items)	-3,359	-4,223
PAT (after exceptional items)	-3,745	-6,879
GCA	-1,209	-4,330
Overall Gearing	Negative	Negative

Interest Coverage	0.71	0.38
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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.

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****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.

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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	-	-	-	6500.00	CARE A1+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	5001.11	CARE A+ (Under Credit watch with Developing Implications)	1)CARE A+ (Under Credit watch with Developing Implications) (10-Nov-17) 2)CARE A-	1)CARE A-; Negative (27-Mar-17) 2)CARE A (01-Nov-16)	1)CARE A (14-Jul-15)	1)CARE A (24-Mar-15) 2)CARE A (16-Jul-14)

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		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
					(Under Credit watch with Developing Implications) (24-Oct-17)	3)CARE A (04-Aug-16)		
2.	Fund-based - LT-Cash Credit	LT	140.00	CARE A+ (Under Credit watch with Developing Implications)	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)	1)CARE A (24-Mar-15) 2)CARE A (16-Jul-14)
3.	Non-fund-based - ST-Bank Guarantees	ST	1005.00	CARE A1+ (Under Credit watch with Developing Implications)	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)	1)CARE A1 (24-Mar-15) 2)CARE A1 (16-Jul-14)
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 Developing Implications) (24-Oct-17)	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)	1)CARE A (24-Mar-15) 2)CARE A (16-Jul-14)
6.	Fund-based - ST-Term loan	ST	600.00	CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A1+ (Under Credit watch with Developing Implications)	1)CARE A2+ (27-Mar-17) 2)CARE A1	1)CARE A1 (14-Jul-15)	1)CARE A1 (24-Mar-15) 2)CARE A1 (16-Jul-14)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
					(10-Nov-17) 2)CARE A2+ (Under Credit watch with Developing Implications) (24-Oct-17)	(01-Nov-16) 3)CARE A1 (04-Aug-16)		
7.	Commercial Paper	ST	6500.00	CARE A1+	-	-	-	-

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