

Maharashtra Transmission Communication Infrastructure Limited

June 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan	55.00	55.00	[ICRA]BBB- (Stable); Reaffirmed
Total	55.00	55.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) assigned to the Rs. 55.0 crore fund-based facilities of Maharashtra Transmission Communication Infrastructure Limited (MTCIL). The outlook on the rating is Stable.

Rationale

The rating reaffirmation continues to draw comfort from MTCIL's strong parentage where Sterlite Technologies Limited (STL; rated [ICRA]AA- (positive) and [ICRA]A1+) owns 72.1% of the equity shareholding. The company benefits from management linkages with STL and financial flexibility available due to the parentage. The project has achieved COD in December 2017 which will enable the company to ramp up its network leasing activity.

ICRA also takes into consideration that once the agreements are signed, the indefeasible right of use (IRU) contracts will ensure sizeable upfront cash flows supporting the company to fund its operational overheads as well as service debt obligations in timely manner. However, sizeable upfront payment requirement might be a deterrent for customers and thus the company has devised annual rate contract (ARC) model for such customers wherein the billing will be on a quarterly / monthly basis and the tenure of the contract would typically be three years.

The rating remains constrained by the company's exposure to marketing risk as currently the contracts are signed for only 4.7% of the leasable network. The pipeline of new enquiries is modest and the same is limiting visibility of cash flows in the near to medium term. Further, the company's ability to acquire higher number of IRU contracts remains important as those provide long term revenue visibility with healthy cash flows during the initial period of contracts while the ARC contracts expose the company to counterparty as well as possible future marketing risk.

ICRA also note that MTCIL has funded Rs. 46.4 crore of its project cost through indirectly extended credit period from the group company, Sterlite Power Transmission Limited (SPTL), which it intends to pay back by Q2FY2019. Additionally, considering the outflows for servicing debt obligations as well as planned capex for intra city network expansion, the cash flows from the signed contracts as well as contracts in pipeline are estimated to be insufficient. Therefore, timely financial support from the promoter would remain critical from credit perspective.

Outlook: Stable

ICRA believes MTCIL will continue to benefit from its strong parentage. Further the commissioning of project along with planned investment in intra city network development is likely to improve network utilisation over the medium term. The outlook may be revised to 'Positive' if substantial new leasing happens, predominantly through IRU contracts, strengthening the cash flow position of the company. The outlook may be revised to 'Negative' if the cash flow position deteriorates in absence of adequate leasing. Weak counterparties in new contracts will also put pressure on credit risk profile of the company.

Key rating drivers

Credit strengths

Strength derived from strong parent as well as group support- MTCIL derives considerable strength from STL due to financial flexibility and management linkages. Further, majority of the project cost has been funded by support from group company, SPTL, which has provided extended credit period (indirectly through the EPC contractor) for payments of OPGW cable supply. ICRA believes that the parent and other group companies would continue to support MTCIL going forward as well, whenever required.

Commencement of project likely to improve network utilisation – As on December 2017, the company has achieved Commercial Operation Date (COD) by replacing 100% of the planned 2,784 Kms existing earth wire fixed on power transmission towers covering 15 districts of Maharashtra with Optical Fiber Composite Ground Wire (OPGW). The commencement of project is likely to ramp up new leasing and provide cash flow visibility. Further the proposed capex for development of intra city network may improve network utilisation over the medium term.

Business model ensures healthy cash flows in the initial tenure of contracts–MTCIL offers network leasing through IRU contracts. These are long-term contracts with upfront one-time payment clause, resulting in healthy cash flow in the initial period of contract for the company. Additionally, the customer pays recurring O&M charges (~2.5% to 3.5% of the initial revenue) with a price escalation clause to MTCIL which ensures steady cash inflow for long term and provides adequate liquidity to funds its fixed overheads and debt service obligations. However, sizeable upfront payment requirement might act as a deterrent for the customers which may lead to very low priced IRU contracts or the customers opting for Annual rate contracts (ARCs).

Credit challenges

Exposed to marketing risk – MTCIL has currently leased only 4.7% of the leasable network. Though the company is in discussion with few potential customers, considering the current position, the company is exposed to high marketing risk.

Short term ARCs expose the company to counterparty and re-leasing risks - For ARC mechanism, the counterparty risk for MTCIL is higher due to comparatively weak credit profile of ISPs or MSOs. Though the company takes security deposits of two months of lease payments from customers, the deposit quantum is inadequate to cover the counterparty risk. Further the short tenure of the ARC contracts also exposes the company to marketing risk for re-leasing the network.

Additional parent support remains critical for adequate liquidity– Given the repayment obligations of the existing debt, fixed overheads and MTCIL's commitment to repay its creditors, the cash flows from the current signed contracts are estimated to be insufficient. Therefore, timely additional support from the parent remains crucial and will be a key monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Maharashtra Transmission Communication Infrastructure Limited is a joint venture between Sterlite Technologies Limited and Maharashtra State Electricity Transmission Company Limited ('MSETCL'). The Company was incorporated on Aug 09, 2012 for execution of project of replacing existing earth wire of network of around 2,784 km (as per latest survey) within Maharashtra with Optical Fiber Composite Ground Wire (OPGW) wires. The company's principal commercial activity is to

make available fiber capacity on lease rental to retail, wholesale and enterprise/corporate customers, drawn from OPGW network.

In FY2018, on a provisional basis, the company reported a net loss of Rs. 4.1 crore on an operating income of Rs. 2.2 crore, as compared to a net loss of Rs. 4.3 crore on an operating income of Rs. 0.3 crore in the previous year.

Key financial indicators

	FY2017	FY2018 (Provisional)
Operating Income (Rs. crore)	0.3	2.2
PAT (Rs. crore)	(4.1)	(4.3)
OPBDIT/OI (%)	(0.8%)	0.4%
RoCE (%)	(54.4%)	(18.9%)
Total Debt/TNW (times)	1.3	2.3
Total Debt/OPBDIT (times)	(28.6)	(104.0)
Interest coverage (times)	(0.7)	0.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016 Jan-2016
1 Term Loans	Long Term	55.0	36.6	June 2018 [ICRA]BBB- (Stable)	Apr-2017 [ICRA]BBB- (Stable)	-	[ICRA]BB B-(Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan –I	30.12.2015	11.95%	01-01-2025	55.0	[ICRA]BBB- (Stable)

Source: MTCIL

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Anand Kulkarni

+91 20 6606 9910

anand.kulkarni@icraindia.com

Abhishek Suryawanshi

+91 20 6606 9917

abhishek.suryawanshi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents