June 20, 2019 Revised

Maharashtra Transmission Communication Infrastructure Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term - Fund-based TL	55.0	55.0	[ICRA]BBB-(Stable); Reaffirmed
Total	**55.0**	**55.0**	

**Instrument details are provided in Annexure-1;*

Rationale

The rating reaffirmation continues to draw comfort from the strong parentage of Maharashtra Transmission Communication Infrastructure Limited (MTCIL or the company), where Sterlite Technologies Limited (STL; rated [ICRA]AA (stable) and [ICRA]A1+) owns 51% of the equity shareholding. The company benefits from management linkages with STL and financial flexibility available due to the parentage. The rating also factors in the present contract order book along with contracts under pipeline, which provides adequate cash flow visibility in the near term. The rating also derives comfort from MTCIL's ongoing thrust on Indefeasible Right of Use (IRU) contracts, which ensures sizeable upfront cash flow generation, once agreements are signed with telecom service providers (TSPs) and Internet service providers (ISPs). This supports MTCIL to fund its operational overheads as well as service debt obligations in a timely manner. MTCIL's colocation contracts also provide high value business wherein the billing is typically on a quarterly / monthly basis and ensures stable revenues.

The rating, however, remains constrained by the slower than anticipated off-take of the leasing activity, which exposes the entity to high marketing risk. Currently the final contracts as well as contracts under pipeline contributes only ~10.0% of the leasable network. Further some of the segments of the network may remain unutilised/underutilised due to lack of operational viability for the customers leading to low capacity utilisation. Annual Rate Contracts (ARC), however, provides high value business, exposes the company to counterparty and roll over risk due to its short-term tenure.

ICRA also notes that MTCIL has funded Rs. 46.4 crore of its project cost through an indirectly extended credit period from the group company, Sterlite Power Transmission Limited (SPTL), which it intended to pay back in FY2019. However delayed equity infusion and resultant inability to avail the undisbursed debt led to continued credit liabilities. Thus, going forward, timely financial support from the promoter would remain critical from a credit perspective. Further, MTCIL's ability to acquire a higher number of IRU contracts remains important as they provide long-term revenue visibility with healthy cash flows during the initial period of contracts.

Outlook: Stable

ICRA believes MTCIL will continue to benefit from its strong parentage. Further, the company's thrust on long-term IRU contracts along with planned investment in intra-city network development is likely to improve network utilisation over the medium term and ensure adequate cash flows to service its debt and interest obligations. Though additional financial support from the promoters will be essential for MTCIL to reduce is existing liabilities. The outlook may be revised to Positive, if substantial new leasing takes place, 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 the absence of adequate leasing. Weak counter-parties in new contracts will also put pressure on the 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 its strong management linkages and derived financial flexibility from such association. 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 Optical Fibre Composite Ground Wire (OPGW) cable supply. ICRA believes that the parent and other Group companies would continue to support MTCIL going forward as well, whenever required.

Present contract order position provides adequate cash flows visibility – The company fetched ~Rs. 12.5 crore of IRU and ARC contracts in FY2019 with additional Rs. 30.0-crore of IRU contracts in the pipeline for the current fiscal till date. The order book position provides adequate cash flow visibility in the near term to service its debt and interest service obligations.

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 an upfront one-time payment clause, resulting in healthy cash flow in the initial contract period for the company. Additionally, the customer pays recurring operations and maintenance (O&M) charges (~2.5–3.5% of the initial revenue) with a price escalation clause to MTCIL, which ensures steady long-term cash inflow and provides adequate liquidity to funds fixed overheads and debt service obligations. Further, the company's thrust on the colocation business which has adequate demand among the TSPs due to increasing data traffic along certain routes in Maharashtra, is also likely to provide stable cash flows and support the liquidity profile of the company going forward as well. The proposed capex for the development of an intra-city network may also improve network utilisation over the medium-term.

Credit challenges

Exposed to marketing risk – MTCIL has currently leased only 6.7% of the leasable network and thus remains exposed to high marketing risk. Though the company is in discussions with a few potential customers, the leasing off-take is likely to remain modest in the near-term.

Short-term ARCs expose the company to counter-party and re-leasing risks – For the ARC mechanism, the counter-party risk for MTCIL is higher due to the comparatively weak credit profile of ISPs or Multiple Service Operators (MSOs). Though the company takes security deposits of two months of lease payments from its 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.

Liquidity position

Given the debt and interest service obligations 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 through equity infusion and resultant availment of undisbursed external debt remains crucial and will be a key monitorable from a liquidity perspective

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Parent company – Sterlite Technologies Limited The rating is based on implicit support of Sterlite Technologies Limited
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MTCIL.

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 August 9, 2012 for executing a project to replace the existing earth wire network of around 2,784 km (as per the latest survey) in Maharashtra with an OPGW network. The company's principal commercial activity is to offer fibre capacity on lease rental to retail, wholesale and enterprise/ corporate customers, drawn from the OPGW network.

In FY2019, on a provisional basis, the company reported a net loss of Rs. 7.8 crore on an operating income of Rs. 4.5 crore, compared to a net loss of Rs. 5.3 crore on an operating income of Rs. 2.2 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019 Provisional
Operating Income (Rs. crore)	2.2	4.5
PAT (Rs. crore)	(5.3)	(7.8)
OPBDIT/ OI (%)	17.6%	31.0%
RoCE (%)	(17.5%)	(12.8%)
Total Debt/ TNW (times)	2.8	2.4
Total Debt/ OPBDIT (times)	104.4	23.9
Interest Coverage (times)	0.2	0.5
NWC/ OI (%)	(876%)	(766%)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	June 2019	Date & Rating in FY2019 June 2018	Date & Rating in FY2018 Apr 2017	Date & Rating in FY2017
1	Fund-based Term Loan	Long Term	55.0	24.6	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (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	11.50%	01-01-2025	49.84	[ICRA]BBB- (Stable)
NA	Term Loan – II (Proposed)	-	-	-	5.16	[ICRA]BBB- (Stable)

Source: MTCL

Annexure-2: List of entities considered for consolidated analysis – NA

Corrigendum

Previously published document dated June 20, 2019 has been corrected with revisions as detailed below:

Revisions - Page 3 – the analytical approach table has been re-worded to reflect the current parent/group support

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