Reliance Communications Infrastructure Limited

May 29, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings1	Remarks
Short term non fund based bank facilities	1,180	**CARE A4 (SO) [A Four (Structured Obligation)] (Credit Watch with Developing Implications)**	**Revised from CARE A2+ (SO) [A Two Plus (Structured Obligation)] and Continues on Credit Watch**
Total Bank Facilities	**1,180 (Rs. One Thousand One Hundred and Eighty Crore only)**		

** backed by unconditional and irrevocable Corporate Guarantee provided by Reliance Communications Ltd (RCOM; rated CARE BB (Credit Watch with Developing Implications)/A4 (Credit Watch with Developing Implications)) (rationale for the guarantor available on* www.careratings.com*)*

Details of instruments/facilities in Anneuxre-1

Rating Rationale

The rating factors in credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Reliance Communications Ltd (RCOM) to the lenders of Reliance Communications Infrastructure Limited (RCIL) for the repayment of debt obligations. The revision in the rating of RCIL follows the revision in the credit rating of RCOM from CARE A-(Credit Watch) /A2+(Credit Watch) to CARE BB (Credit Watch with Developing Implications)/A4(Credit Watch with Developing Implications).

Rating Rationale of Guarantor: RCOM

The ratings assigned to the bank facilities, NCD issue and CP issue of Reliance Communications Limited (RCOM) factors in the change in the competitive landscape in the telecom industry with the entry of the new operator which continues to offer its services at very low prices thereby impacting the operational risk profile of RCOM. Furthermore, the high debt levels of RCOM coupled with lower cash accruals and imminent repayment obligations had increased the stress on the financial risk profile leading to stretched liquidity profile and deteriorating debt coverage indicators. Also, considering the intense competition in the industry, the profitability will continue to be under stress across the telecom sector in the medium term.

The ratings of RCOM continues on ‘Credit Watch with Developing Implications’ considering the ongoing merger of its wireless business (including recently acquired Sistema Shyam Teleservices Ltd. (SSTL) wireless business) with Aircel Ltd (rated CARE A-(SO) (Under Credit Watch) and possible sale of company’s Tower business.

As per the announcement made by the company on the wireless business, RCOM and Maxis Communications Berhad (MCB), the promoters of Aircel, will hold 50% each in the merged entity, with equal representation on board. RCOM will transfer Rs.14,000 crore debt to the merged entity (in addition to about Rs.6,000 crore of deferred payment liabilities from Department of Telecommunications (DoT)). Additional fund infusion into merged entity will be done by bringing in a new strategic equity investors in the new merged entity. The debt transferred to the new merged entity will not be consolidated with RCOM as it is proposed that the lenders will have no recourse to RCOM for the debt obligations of the merged entity.

Post the merger, the residual RCOM will continue to have operations in Global Communication Services, Internet Data Centre, Towers & Optical Fibre Network and Enterprise Business Services, besides owning real estate.

Furthermore, RCOM had signed definitive agreement with Brookfield Infrastructure Group for sale of RCOM’s tower business for a consideration of Rs.11,000 crore in addition RCOM will hold 49% Class B shares with non-voting rights. The proceeds from the transaction will be used to reduce the debt levels of RCOM.

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

CARE continues to monitor the developments regarding the wireless business merger as well as the sale of the Tower business and would take a view on the rating once the exact implications of the transactions on the credit risk profile of RCOM are clear.

The ratings continue to factor the exposure of the company to regulatory risk and high competition in the industry which continues to exert pressure on revenues and profitability of RCOM. The ratings also continue to factor the weak debt coverage indicators with relatively large imminent repayment obligations as compared to the expected gross cash flow accruals which expose the company to a significant refinancing risk in medium term.

The ratings factors in the established promoter group, the company's position as one of the leading integrated telecom service provider with pan-India presence, RCOM's sizeable spectrum holding across bands and spectrum sharing arrangement with Reliance Jio Infocomm Limited (RJIL) (rated CARE AAA/AAA(SO) CARE A1+). The ratings also factor in steps taken by the management to reduce the financial leverage.

The ability of RCOM to reduce its debt levels by timely completion of the merger with Aircel and sale of tower assets to Brookfield Infrastructure Group while managing its liquidity position through refinancing in the medium term amidst negative outlook on the domestic telecom sector are the key rating sensitivities. Also, any further delays in the debt reduction may adversely impact the credit profile of the company.

Detailed description of the key rating drivers of the Guarantor (RCOM)
Key Rating Weakness
Changing competitive landscape resulting in weakened business risk profile: The competitive landscape in Indian Telecom Market has undergone a change with the entry of a new operator which is still in the promotion mode offering services at very low prices which has led to stressed cash flows and profitability of the incumbents including RCOM. The adverse impact has been witnessed in the Q3FY17 profitability numbers reported by RCOM and is likely to continue in the near term.

Deterioration in operational and financial risk profile: The increased level of competition has adversely impacted RCOM's operational risk profile characterized by decrease in number of subscribers and revenue per minute. Also, the already high debt levels of RCOM coupled with lower cash accruals and imminent debt repayments increases the stress on the financial risk profile and importantly the liquidity situation of the company. The ability of the company to manage its liquidity position through refinancing in the medium term amidst negative outlook on the domestic telecom sector remains a key rating sensitivity.

Capital structure deterioration; share of forex debt continues to be large: Total debt as at March 31, 2016, stood at Rs.47,332 crore (including Deferred Payment Credit), which was higher as compared to Rs.39,828 core as on March 31, 2015. This increase in debt was largely due to spectrum acquisition and liberalization. The overall gearing of the company increased from 1.17x as on March 31, 2015 to 1.49x as on March 31, 2016. The company has large portion of its debt denominated in foreign currency. Out of the total debt outstanding as at March 31, 2016, around 51% of the borrowings were in foreign currency.

Large imminent repayments, refinancing risk continues; monetization of tower assets key monitorable: The company's total debt repayment obligations are sizeable in FY18 and FY19. The short-fall from operating cashflows is expected to be met by refinancing arrangements. Furthermore, asset monetization of its tower business and merger with Aircel would reduce its debt. These remain key rating monitorables over the medium term.

Key Rating Strengths
Integrated telecom service provider: RCOM is one of the leading integrated telecommunications service providers with a customer base of around 87.7 million as on December 31, 2016. The company together with its subsidiaries operates on a pan-India basis and offers the full value chain of wireless (4G, 3G and 2G services), wireline, national and international long distance voice, data, video, Direct-To-Home (DTH) and internet based communications services.

Experienced management: RCOM is the flagship company of the Reliance group led by Mr Anil D Ambani. The Board of Directors comprises eminent industry veterans with vast experience in their respective fields. The top management team, including Mr Anil D Ambani, have significant knowledge in the field of telecommunications.

Analytical approach: Considering the strong operational and financial linkage with the subsidiaries, the consolidated financials of RCOM are considered for analysis purpose.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)

About the Guarantor: RCOM

Reliance Communications Limited (RCOM), founded by late Mr Dhirubhai H Ambani, is the flagship company of the Reliance Group (Reliance Group), led by Mr Anil Dhirubhai Ambani. RCOM is one of India's leading integrated telecommunications service providers with a customer base of around 87.7 million as at December 31, 2016. RCOM's corporate clientele includes over 39,000 Indian and multinational corporations including small and medium enterprises and over 290 global, regional and domestic carriers. It has an established pan-India, integrated (wireless and wireline), convergent (voice, data and video) digital network that can support the entire communications value chain, covering over 21,000 cities and towns and over 400,000 villages. RCOM owns and operates one of the largest IP enabled connectivity infrastructure, comprising over 280,000 kilometres of fibre optic cable systems in India, USA, Europe, Middle East and the Asia Pacific region. RCOM offers Nationwide Direct-To-Home (DTH) service through its wholly owned subsidiary, Reliance Big TV Limited in many towns across the country. Using MPEG 4 technology, it offers close to 290 channels.

RCOM's FY16 total income stood at Rs.21,819 crore (Rs.21,820 crore in FY15) and net profit of Rs705 crore (Rs.623 crore in FY15). Furthermore, RCOM's 9MFY17 total income stood at Rs.15,181 crore (Rs.16,272 crore in 9MFY16) and reported losses at the PAT level of Rs.339 crore (Rs.580 crore profit at the PAT level in 9MFY16).

About the Company

RCIL, a wholly owned subsidiary of Reliance Communications Limited, offers Passive Infrastructure and other telecom support services. It is the holding company of Reliance Infratel Limited (RITL). RITL is in the business to build, own and operate telecommunication towers, optic fiber cable assets and related assets at designated sites and to provide these passive telecommunication infrastructure assets on a shared basis to wireless service providers and other communications service providers under long term contracts.

During FY16, RCIL reported total income of Rs 2,962 crores (Rs.2,333 crore in FY15) and PAT (Profit After Tax) of Rs.759 crore (Rs. 120 crore in FY15).

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.

facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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
Non-fund-based - LT/ ST-BG/LC	-	-	-	90.00	CARE BB (SO) (Under Credit watch with Developing Implications) / CARE A4 (SO) (Under Credit watch with Developing Implications)

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.	Non-fund-based - LT/ ST-BG/LC	LT/ST	90.00	CARE BB (SO) (Under Credit watch with Developing Implications) / CARE A4 (SO) (Under Credit watch with Developing Implications)	-	1)CARE A- (SO) / CARE A2+ (SO) (Under Credit Watch) (12-Oct-16)	1)CARE A- (SO) / CARE A2+ (SO) (09-Feb-16)	1)CARE A- (SO) / CARE A2+ (SO) (13-Feb-15)

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