SEPTEMBER 29, 2016

CARE PLACES THE RATINGS ASSIGNED TO THE BANK FACILITIES/INSTRUMENTS OF RELIANCE COMMUNICATIONS LTD ON CREDIT WATCH.

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	9,322 [enhanced from Rs.7,820 crore]	**CARE A- (Single A Minus) (Credit Watch)**	Placed on Credit Watch
Short term Bank Facilities	8,034	**CARE A2+ (A Two Plus) (Credit Watch)**	Placed on Credit Watch
Total Facilities	**17,356 (Rupees. Seventeen Thousand Three Hundred and Fifty Six crores only)**		
Long term instruments (NCD)	3,000	**CARE A- (Single A Minus) (Credit Watch)**	Placed on Credit Watch
Commercial paper/Short term debt issue	2,880	**CARE A2+ (A Two Plus) (Credit Watch)**	Placed on Credit Watch

Rating Rationale

The ratings of Reliance Communications Ltd. (RCOM) have been placed on credit watch following RCOM's announcement regarding the 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 to Department of Telecommunications (DoT)), and the total debt of the merged entity is expected to be ~Rs35,500 crore with an networth base of Rs35,000 crores. 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 further, as there will be no recourse to RCOM for any of 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 properties.

Further, the company is in process of selling its tower network and the proceeds are expected to be used solely for deleveraging. The timelines, the sales value and extent of deleveraging of RCom would get ascertained later on conclusion of this transaction.

CARE continues to monitor the developments regarding the wireless business merger as well as possible sale of the Towers business and would take a view on the rating once impact of these transactions on the credit prolife of RCOM becomes clearer.

The ratings continue to factor 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, spectrum sharing

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

arrangement with Reliance Jio Infocomm Limited (RJIL)(rated CARE AAA/AAA(SO) CARE A1+) and favorable growth potential for mobile telephony in India. The ratings also factor in steps taken by the management to reduce the financial leverage.

The rating strengths are partially offset by high competition in the industry which continues to exert pressure on revenue and profitability of RCom and exposure to regulatory risk. The ratings also continue to be tempered by modest debt coverage indicators with relatively large imminent repayment obligations as compared to the expected gross annual cash flow accruals which exposes the company to a significant refinancing risk in medium term.

RCOM's ability to pare its debt quickly through a) potential sale of tower at appropriate valuations b) sale of other non-core assets are the key rating sensitivities and any further delay in debt reduction may adversely impact credit profile of the company.

Background

Reliance Communications Limited (RCom), founded by late Shri Dhirubhai H Ambani, is the flagship company of the Reliance Group (Reliance Group), led by Mr. Anil D Ambani.

RCom is one of India's leading integrated telecommunications service providers. The Company had a customer base of around 100.0 million as at June 30, 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 260,000 kilometers of fibre optic cable systems in India, USA, Europe, Middle East and the Asia Pacific region.

RCOM's FY16 total income stood at Rs. 21,819 crore (Rs. 21,820 crore in FY16). During FY16 the company reported net profit of Rs705 crore (Rs. 623 crore in FY16). Further, RCOM's Q1FY17 total income stood at Rs. 5,361 crore and net profit stood at Rs. 54 crores.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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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