Reliance Communications Limited

Instrument	Amount	Rating Action
	In Crore	September 2016
Non-Convertible Debenture (NCD) Programme	5,000	[ICRA]BBB+&
Long-term Fund-based/Non-fund Based Limits	28,116	[ICRA]BBB+&
Short-term Fund based/Non-fund Based Limits	7,314	[ICRA]A2+&
Commercial Paper (CP) Programme	2,000	[ICRA]A2+&

& - Under rating watch with developing implications

ICRA has placed the long-term rating of [ICRA]BBB+ (pronounced as ICRA triple B plus) for the Rs. 5,000 crore[1] Non-Convertible Debenture (NCD) Programme and the Rs. 28,116 crore Long-Term Fund Based/Non-Fund Based Limits (including unallocated limits) of Reliance Communications Limited (RCom)[†] under rating watch with developing implications. ICRA has also placed the short-term rating of [ICRA]A2+ (pronounced as ICRA A two plus) for the Rs. 7,314 crore Short-term Fund-based/Non-fund Based Limits (including unallocated limits) and the Rs. 2,000 crore Commercial Paper Programme of RCom under rating watch with developing implications.

ICRA has taken a consolidated view of the RCom Group (referred to as “the Group”) including Reliance Telecom Limited (RTL) and Reliance Infratel Limited (RITL).

The ‘rating watch with developing implications’ is due to the recent signing of definitive documents for the merger of Indian wireless business of RCom with that of another telecom operator (telco) namely Aircel Limited (Aircel).

As per the deal, RCom and Maxis Communications Berhad (MCB), the promoters of Aircel, will hold 50% each in the merged entity, with equal representation on board. Both entities will transfer Rs. 14,000 crore each of debt to the merged entity in addition to Rs. 7,500 crore of deferred payment liabilities to Department of Telecommunications (DoT), taking the total debt in the new entity to Rs. 35,500 crore. Further the combined entity would have a net worth of Rs. 35,000 crore. The deal is aimed at deriving benefits of consolidation, including opex and capex synergies and revenue enhancement. The merged entity would have a sizeable spectrum holding, strong customer base and healthy market share.

Apart from this, RCom is also looking at selling its stake in its tower arm RITL and the proceeds are expected to be used for deleveraging. Completion of the tower deal in a timely manner and as per expected valuations remains a key rating sensitivity for the Group.

On completion of both these transactions RCom will be left with operations in Global Communication Services, Internet Data Centre, Optical Fibre Network and Enterprise Business Services. ICRA would evaluate further the impact of the above mentioned transactions on the overall financial profile of the company, including the resultant entity’s scale of operations, its profitability, corresponding debt levels and repayment profile of the same vis a vis its expected cash flow generation.

Nevertheless, the ratings continue to factor in the Group’s sizeable spectrum holding across bands, spectrum-sharing arrangement with Reliance Jio Infocomm Limited (RJio), the Group’s established position as an integrated service provider with its presence spanning wireless services, wire-line services, enterprise connectivity solutions, domestic and international long distance segments, and direct-to-home (DTH) pay television services; the operational strengths it derives from its pan-India network; and its large customer base (99.9 million subscribers as on end-June 2016).

The Group’s ratings however remain constrained on account of its stretched capital structure and the fact that its plans for monetising its assets are yet to be completed. In the past the Group has been refinancing its debt maturities and continues to remain exposed to refinancing risks, given the large repayments in the near to

[1] 1 crore = 100 lakhs = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

medium term. The Group's debt, which stood elevated at Rs. 44,285 crore as on June 30, 2016, is also impacted by the depreciation in the Indian rupee, given that a large proportion of the loans are foreign currency denominated; and addition of spectrum related payouts for the spectrum auctions concluded in March 2015.

The ratings also take into consideration the Group's subdued performance in terms of revenue growth and profitability over the last two years as the operating environment remains challenging, marked by high competition and pricing pressures. Further, during Q1 FY2017 the Group has reported decline in its revenue and profitability given the decline in its subscriber base, with a corresponding decline in total minutes carried on its network and total data volume. The company has migrated its existing Code Division Multiple Access (CDMA) customers to 4G network and has witnessed a decline in subscribers base in the transition. Moreover, the MoU per subscriber has been at 328 minutes in Q1 FY2017 (329 minutes in Q4 FY2016) and the RPM has declined to Rs. 0.45 in Q1FY2017 from Rs. 0.48 in Q4 FY2016. Given the decline in profitability coupled with its high debt levels and corresponding hefty interest outgo, the Group's debt coverage metrics continue to remain subdued. Its Total Debt/OPBDITA stood at 7.10 times for Q1 FY2017 (annualised) and interest coverage (OPBDITA/Interest) stood at 1.96 times.

ICRA will closely monitor the developments with respect to its announced deals, other deleveraging efforts and the Group's initiatives to improve its operational performance and will take rating action accordingly.

Company Profile:
Reliance Communications Limited, founded by the late Shri Dhirubhai H. Ambani (1932-2002), is the flagship company of the Reliance Group. RCom is among India's largest integrated telecommunications service providers and ranked 4th based on subscriber market share. 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.

RCom has established a pan-India, next generation, integrated (wireless and wire-line), convergent (voice, data and video) digital network that is capable of supporting services spanning the entire communications value chain, covering over 21,000 cities and towns and over 400,000 villages. RCom also owns and operates next generation IP-enabled connectivity infrastructure, comprising over 280,000 km of fibre optic cable systems in India, the USA, Europe, the Middle East and the Asia-Pacific region.

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