May 05, 2017

Reliance Communications Limited Revised

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	5,000	Downgraded to [ICRA]BB(Negative) from [ICRA]BBB(Negative)
Long-term Fund-based/Non-fund Based Limits (including unallocated)	28,116	Downgraded to [ICRA]BB(Negative) from [ICRA]BBB(Negative)
Short-term Fund-based/Non-fund Based Limits (including unallocated)	7,314	Downgraded to [ICRA]A4 from [ICRA]A3+
Commercial Paper (CP) Programme	2,000	Downgraded to [ICRA]A4 from [ICRA]A3+

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long-term rating to [ICRA]BB (pronounced as ICRA double B) from [ICRA]BBB (pronounced as ICRA triple B) 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)[†]. ICRA has also reaffirmed Negative outlook to the long term rating. ICRA has also downgraded the short-term rating to [ICRA]A4 (pronounced as ICRA A four) from [ICRA]A3+ (pronounced as ICRA A three 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.

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).

Rationale

The revision in ratings takes into account the persisting pressures on and weakening outlook of the revenue generation and profitability of the Group given the heightened competitive intensity in the industry. The new entrant Reliance Jio Infocomm Limited (RJio) continues to offer attractive plans even after the expiry of its free plans, which has been largely matched by the other operators. Thus there has been a material erosion in the pricing power of the industry. The adverse industry scenario has made subscriber acquisition / retention difficult for all operators. In addition the Group has sizeable debt repayment commitments during the year, refinancing of which would be a key rating sensitivity

The Group is in the process of merging its wireless operations with that of Aircel Group (constituting Aircel Limited, Aircel Cellular Ltd. and Dishnet Wireless Ltd.) to drive the synergy benefits. In addition the Group is selling its tower business to Brookfield Infrastructure Group in order to deleverage its balance sheet. However, consummation of these transactions and refinancing of the debt in the RCom-Aircel consolidated entity is under process, and once concluded could change the liquidity position.

[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

Nevertheless, the ratings continue to factor in the Group's sizeable spectrum holding across bands, spectrum-sharing arrangement with RJio, its position as an integrated service provider with 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 healthy telecom customer base (87.7 million subscribers as on end-December 2016).

The negative outlook is because ICRA expects the pressures on the Group's performance to continue for some time and the challenges arising from high debt levels. ICRA will closely monitor the ongoing developments and the Group's initiatives to improve its financial profile and will take further rating action accordingly.

Key rating drivers

Credit strengths

- Healthy telecom subscriber base (87.7 million as on December 31, 2016) and pan-India telecom operations
- Healthy spectrum holding with sizeable spectrum in 800 MHz band, which is best suited to provide high speed 4G data services
- The non voice revenue continues to show steady growth; the proportion of non-voice revenue to total telecom revenue improved to 39% in Q3 FY2017 from 36% in Q2 FY2017
- Moderate capital expenditure plans going forward, given the infrastructure-sharing arrangement with Reliance Jio Infocomm Limited (RJio)
- No major spectrum expiry in the near to medium term. Limited regulatory payouts as compared to those to be incurred by its competitors

Credit weaknesses

- Persistently high debt levels; the debt protection metrics have further deteriorated with increase in debt and weakening in profitability; its Debt/EBITDA increased to 7.76 times (annualised) as on 9M FY2017 end from 6.68 times as on FY2016-end.
- Sizeable debt repayments obligations over next few quarters
- Significant pressure on realisations owing to competitive pressures, resulting in decline in profitability in Q3 FY2017, and expected in Q4 FY2017.
- Heightened and protracted competitive intensity with RJio continuing to offer attractive plans and other telcos following the same; this has further eroded the pricing power of the industry.
- Foreign exchange fluctuation risk given that around 50% of debt is USD-denominated.
- Modest market position– with revenue market share of 2.8% and subscriber market share of 7.7% in Q3 FY2017.

Description of key rating drivers:

The Group has a pan-India network and an established position in the Indian telecom industry (87.7 mn subscribers as on December 31, 2016). It has healthy spectrum-holding with sizeable spectrum in 800 MHz band which is suited to provide high speed 4G data services. The Group has entered into a comprehensive infrastructure-sharing arrangement with RJio with reciprocal access to the newly laid network of RJio. This would limit the upfront capex of the Group while enabling it to offer 4G services. In addition, the Group is present across segments such as wireless services, wire-line services, enterprise connectivity solutions, domestic and international long distance segments, and direct-to-home (DTH) pay television services.

The Group is undertaking three transactions – a) to merge Sistema Shyam TeleServices Limited's (SSTL) India wireless business with itself, b) to merge its wireless operations with that of the Aircel Group and c) to offload its tower business to Brookfield Infrastructure Group. Transactions (b) and (c) entail transfer/reduction of debt along with concomitant transfer of revenue and EBITDA from the RCom Group. For these transactions, the Group is in the process of obtaining necessary approvals, of which it has already received some approvals. ICRA has taken note of the investigations into acquisition of Aircel by Maxis Communications Berhad (MCB) in 2006, wherein the honourable Supreme Court of India (SC) is hearing petitions filed by certain quarters, and also the fact that the underlying proceedings brought against the shareholder of Aircel was dismissed by the special 2G Court on February 2, 2017. On completion of these transactions, the residual entity will be left with a lower quantum of debt. However, the debt coverage metrics of the residual entity are expected to remain subdued.

Competitive pressures apart, shutdown of the code division multiple access (CDMA) services and demonetisation have exerted pressure on the Group's revenue and profitability in the current fiscal. In Q3FY2017, the Group has reported a decline of 10% YoY in its revenues and a decline of 38% YoY in its earnings before interest tax and depreciation (EBITDA). The Group has also reported a decline in its rate per minute (RPM) to Rs. 0.40 in Q3FY2017 from Rs. 0.45 in Q2FY2017.

Further the financial profile of the group is characterised by sizeable debt levels and muted debt-coverage metrics with Gross Debt/EBITDA weakening to 7.76 times (annualised) as on 9M FY2017 end from 6.68 times as on FY2016-end. Moreover, the company has sizeable debt repayment obligation in the near term.

Analytical approach:

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. In addition for arriving at the rating, 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).

Links to applicable criteria

Corporate Credit Rating Methodology
Rating Methodology for Mobile Service Providers

About the company:

Reliance Communications Limited, founded by the late Mr. 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 6th 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 260,000 km of fibre optic cable systems in India, the USA, Europe, the Middle East and the Asia-Pacific region.

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years:

Table:

S. No.	Name of Instrument	Current Rating FY2018					Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Outstanding amount (Rs. Crores)	Month - year & rating	Month - year & rating	Month - year & rating in FY2017	Month - year & rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
					May 2017	April 2017	Sep 2016	Jun 2016	-	March 2015
1	Non-convertible Debenture (NCD) Programme	Long term	5,000	5,000	[ICRA]BB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
2	LT FB Limits (Term Loans)	Long term	8,658	8,658	[ICRA]BB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
3	LT NFB Limits	Long term	6,582	-	[ICRA]BB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
4	LT Unallocated Limits	Long term	12,876	-	[ICRA]BB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
5	ST FB Limits	Short term	3,365	-	[ICRA]A4	[ICRA]A3+	[ICRA]A2+ &	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
6	ST Unallocated Limits	Short term	3,949	-	[ICRA]A4	[ICRA]A3+	[ICRA]A2+ &	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
7	Commercial Paper (CP) Programme	Short term	2,000	-	[ICRA]A4	[ICRA]A3+	[ICRA]A2+ &	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

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
Instruments Details

Instrument	Date of Issuance/Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Non-Convertible Debenture (NCD) Programme	March 2009	11.20%	March 2019	3,000	[ICRA]BB(Negative)
Non-Convertible Debenture (NCD) Programme	Feb 2012	11.25%	Feb 2019	2000	[ICRA]BB(Negative)
LT FB Limits (Term Loans)	March 2013	~11%-12%	March 2020	8,658	[ICRA]BB(Negative)
LT NFB Limits	-	-	-	6,582	[ICRA]BB(Negative)
LT Unallocated Limits	-	-	-	12,876	[ICRA]BB(Negative)
ST FB Limits	-	-	-	3,365	[ICRA]A4
ST Unallocated Limits	-	-	-	3,949	[ICRA]A4
Commercial Paper (CP) Programme	Not placed	-	-	2,000	[ICRA]A4

Source: Reliance Communication Limited

Corrigendum

Document dated May 5, 2017 has been corrected with revisions as detailed below:

In the exhibit "Rating History for last three years" the months written as "April 2017 and Mar 2017" have been replaced with "May 2017 and April 2017" respectively. Consequently, revised April 2017 has been moved under "Current Rating FY2018" from "Month - year & rating in FY2017"

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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.

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