

Reliance Communications Limited

June 28, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	5,000	5,000	[ICRA]D; Reaffirmed
Long-term Fund-based/Non-fund Based Limits (including unallocated)	28,116	28,116	[ICRA]D; Reaffirmed
Short-term Fund-based/Non-fund Based Limits (including unallocated)	7,314	7,314	[ICRA]D; Reaffirmed
Commercial Paper (CP) Programme	2,000	2,000	[ICRA]D; Reaffirmed

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]D (pronounced as ICRA D) for the Rs. 5,000-crore 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 the short-term rating at [ICRA]D (pronounced as ICRA D) 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 rating reaffirmation takes into consideration the continuing delays in debt servicing (including bank loans and non-convertible debentures) by the Group given that it is not able to generate sufficient cash from its continuing operations. ICRA has taken note of the fact that the Group has discontinued its wireless retail operations from January 31, 2018 given the intense competition in the industry. It is currently operating as a business to business (B2B) player, which includes Indian and global enterprise, internet data centres and private submarine cable network.

The group is also undertaking monetisation of its various assets including related to its now discontinued wireless retail operations, tower assets and other non-core assets to repay part of its borrowings. The Group expects to have a stable operations and sustainable level of debt post restructuring exercise.

Key rating drivers

Credit strengths

Experienced Management – The Group has established presence in its area of operations, which includes Indian and global enterprise, internet data centres and private submarine cable network. The Group has an established clientele over years and sufficient capacity to cater to rising demand in the industry.

Focused business operations – post the exit from wireless retail operations it is now focused as a pure B2B player. It now caters to around 35,000 customers as against earlier customer level of more than 120 million. The Group has also

downsized its work force. This is expected to help the management concentrate effectively on its key operations, which are expected to provide healthy revenue growth potential in future.

Credit weaknesses

Reduced scale of operations – Wireless retail operations was the majority revenue contributor for the Group and post exit from the same, its scale of operations has declined by around 80%. Though the Group has lost the revenue potential, it is yet to reduce the corresponding debt.

Continuing delays in debt servicing – The Group had been facing intense competition in the wireless retail operations, which forced it to exit the business. It witnessed significant deterioration in its financial profile and faced cash flow mismatches. Thus, the group was unable to service its debt obligations for last several quarters. The Group is under the process of monetising its assets to repay part of its borrowings, however the same is yet to be materialised and hence it continues to be in delays.

Legal Challenges – As mentioned earlier, the Group is undertaking monetisation of its assets to repay part of its borrowings, however, it faces various legal challenges in the same. There were objections raised by its operational lenders, foreign lenders and minority shareholders, which led to delays in its asset monetisation plan.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Mobile Service Providers](#)

About the company

The Group has been operating as an integrated telecommunications service provider, however on January 31, 2018 it shut down its wireless retail operations. Now its continuing operations comprise B2B focused businesses, including Indian and Global Enterprise, Internet Data Centres and private submarine cable network. These B2B businesses are capital light and are expected to generate sustained and predictable annuity revenues and profits, with high growth potential amidst relatively low competitive intensity.

For full year, RCom (consolidated, continuing operations) reported a net loss of Rs. 19 crore in FY2018 (provisional financials) on an operating income of Rs. 4,684 crore as against a net profit of Rs. 245 crore on an operating income of Rs. 6,637 crore in FY2017 (restated to correspond to continuing operations in FY2018).

Key financial indicators (Consolidated)

	FY2017 (Restated)	FY2018 Provisional
Operating Income (Rs. crore)	6,637	4,684
PAT (Rs. crore)	245	-19
OPBDIT/OI (%)	18.5%	19.2%
RoCE (%)	-	-
Total Debt/TNW (times)	1.6	16.4
Total Debt/OPBDIT (times)	37.2	50.9
Interest Coverage (times)	4.8	4.8

Source: RCom's Quarterly results, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years Chronology of Rating History for the past 3 years

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018 May 2017	Date & Rating in FY2018 May 2017	Date & Rating in FY2018 April 2017	Date & Rating in FY2017 Sep 2016	Date & Rating in FY2017 Jun 2016
1 Non-convertible Debenture (NCD) Programme	Long-term	5,000	5,000	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB (Negative)	[ICRA]B BB+ &	[ICRA]BBB + (Stable)
2 LT FB Limits (Term Loans)	Long-term	8,658	*	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB (Negative)	[ICRA]B BB+ &	[ICRA]BBB + (Stable)
3 LT NFB Limits	Long-term	6,582	-	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB (Negative)	[ICRA]B BB+ &	[ICRA]BBB + (Stable)
4 LT Unallocated Limits	Long-term	12,876	-	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB (Negative)	[ICRA]B BB+ &	[ICRA]BBB + (Stable)
5 ST FB Limits	Short-term	3,365	-	[ICRA]D	[ICRA]D	[ICRA]A4	[ICRA]A3+	[ICRA]A 2+ &	[ICRA]A2+
6 ST Unallocated Limits	Short-term	3,949	-	[ICRA]D	[ICRA]D	[ICRA]A4	[ICRA]A3+	[ICRA]A 2+ &	[ICRA]A2+
7 Commercial Paper	Short-term	2,000	*	[ICRA]D	[ICRA]D	[ICRA]A4	[ICRA]A3+	[ICRA]A 2+ &	[ICRA]A2+

* Not Available

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
INE330H07015	Non-convertible Debenture (NCD) Programme	March 2009	11.20%	March 2019	3,000	[ICRA]D
INE330H07064	Non-convertible Debenture (NCD) Programme	Feb 2012	11.25%	Feb 2019	2000	[ICRA]D
-	LT FB Limits (Term Loans)	March 2013	~11%-12%	March 2020	8,658	[ICRA]D
-	LT NFB Limits	-	-	-	6,582	[ICRA]D
-	LT Unallocated Limits	-	-	-	12,876	[ICRA]D
-	ST FB Limits	-	-	-	3,365	[ICRA]D
-	ST Unallocated Limits	-	-	-	3,949	[ICRA]D
-	Commercial Paper	*	*	*	2,000	[ICRA]D

Source: RCom

* Not Available

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