Reliance Telecom Limited

ICRA has reaffirmed the long term rating at [ICRA]BBB+ (pronounced as ICRA triple B plus) for Rs. 812 crore[1] (earlier Rs. 867 crore) long term Fund Based / Non Fund Based bank facilities of Reliance Telecom Limited (RTL)[†]. The outlook on the long term rating has been revised to stable from negative. ICRA has also reaffirmed short term rating at [ICRA]A2+ (pronounced as ICRA A two plus) for Rs. 784 crore (earlier Rs. 729 crore) Short-Term Fund-Based/Non-Fund Based Limits and Rs. 500 crore Commercial Paper Programme of RTL.

In arriving at RTL's ratings ICRA has taken a consolidated view of the Reliance Communications (Rcom[2]) group (referred to as "the Group") including RTL and Reliance Infratel Limited (RITL) and are based on the strong operational and ownership linkages with RCom. RCom is the fourth largest telecom operator in the country (in terms of subscriber base) and the holding company for all the telecom operations of the Group.

The reaffirmation in ratings and revision in outlook reflects the improving business profile of the Group with several initiatives being taken by the group to increase its spectrum holding, provide additional focus on data services including the foray into 4G services. These include the deal to acquire wireless operations of Sistema Shyam Teleservices Limited (SSTL), spectrum sharing and trading deal with Reliance Jio Infocomm Limited (RJIL) and proposed merger of wireless business with Aircel Limited. The deal with SSTL will enhance Group's spectrum holding in the 800 MHz spectrum band and will elongate its spectrum validity in eight circles. This coupled with Group's acquisition of spectrum in 800 MHz band in March 2015 spectrum auctions has led to the Group holding sizeable 4G enabled sub 1 GHz spectrum. The transaction would not entail any cash outflow as RCom would issue fresh shares to SSTL and assume SSTL's deferred spectrum payouts. RCom has also entered into spectrum trading and sharing arrangement with RJIL which will enable both the telcos to ride on each others' network and offer both voice and high speed data. Moreover with the sharing of active infrastructure with RJIL, RCom would require limited capex for its 4G services. In addition RCom has announced entering into exclusive discussion with shareholders of Aircel Limited for potential combination of wireless business of the two companies. The deal is aimed at deriving benefits of consolidation, including opex and capex synergies, revenue enhancement and sizeable spectrum holding across multiple bands.

The ratings, further, continue to derive strengths from 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 (103.6 million subscribers as on end-March 2016). While the voice business of the Group has remained stagnant for last few quarters, the data services have recorded healthy growth. The revenue from data services has improved over last few quarters with data subscribers growing from 33.7 million as on March 31, 2015 to 38.9 million as on March 31, 2016 and average data usage growing from 893 MB to 899 MB during the same period. As a result, the proportion of revenues from non voice services to total revenues has increased from 25.2% in Q4 FY2015 to 31.8% in Q4 FY2016 and the gross RPM has improved from 44.4 paisa to 47.7 paisa.

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. The Group has been involved with potential investors for sale of its stake in the tower arm RITL, however the discussion period has been extended and there has not been any definitive announcement in this regard. The deal, if concluded, should generate material cash flows for the Group, which is expected to be used for debt repayment.

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 medium term. The debt of the Group, which stood elevated at Rs. 43,596 crore as on March 31, 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. Given the high debt levels and corresponding hefty interest outgo, Group's debt coverage metrics continue to remain subdued. Its total debt/OPBDITA stood at 5.88 times for FY2016 and interest coverage (OPBDITA/Interest) stood at 2.59 times.

[1] 1 crore = 100 lakh = 10 millions
[†] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications
[2] Rating rationale on RCOM available at ICRA's website www.icra.in

The ratings also take into consideration 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. Group's revenue market share (based on adjusted gross revenue) has declined from 5.6% in Q3FY2015 to 4.2% in Q3FY2016. Further, the Group has reported decline in its subscriber base as the 2G license of the company has expired in five circles where it has shifted some of its subscribers on 3G network, while the remaining subscribes have been deactivated. Consequently, the total minutes carried on its network have declined from 416.7 billion in FY2015 to 409.5 billion in FY2016. Moreover, the MoU per subscriber has been 329 minutes in Q4 FY2016 and the RPM has been Rs. 0.48 in Q4 FY2016. Due to these reasons, the cashflow generation of the Group has not been sufficient to meet the debt servicing requirements of the Group.

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

Company Profile:
Reliance Telecom Limited (RTL) is a Reliance Group company and provides global system for mobile communications (GSM) based services in eight telecom circles, namely Madhya Pradesh, Bihar, Orissa, West Bengal, Assam, North East, Himachal Pradesh and Kolkata. In February 2008, RTL was granted an in-principle approval by the Ministry of Communications and IT for providing code division multiple access (CDMA) mobile services under the existing Unified Access Service Licenses in Assam and the North East circles in addition to the existing GSM services being provided by the company.

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For further details please contact:
Analyst Contacts:
Mr. Anjan Ghosh (Tel. No. +91-22- 6114 3407)
aghosh@icraindia.com

Relationship Contacts:
Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	