

May 05, 2017

Reliance Infratel Limited Revised

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long-term Fund-based Limits (including unallocated)	2,271	Downgraded to [ICRA]BB(Negative) from [ICRA]BBB(Negative)
Short-term Fund based/Non-fund Based Limits	245	Downgraded to [ICRA]A4 from [ICRA]A3+
Short Term Debt (STD) Programme	1,000	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. 2,271-crore¹ long-term fund-based/non-fund based limits of Reliance Infratel Limited (RITL)[†]. 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. 245-crore short-term fund-based/non-fund based limits and the Rs. 1,000-crore short term debt programme of RITL.

In arriving at the ratings ICRA has taken a consolidated view of the Reliance Communications (RCom) group (referred to as “the Group”) including Reliance Telecom Limited (RTL) and 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.

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

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

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 Infratel Limited (RITL), formerly Reliance Telecom Infrastructure Limited, is a part of the RCom group. RCom (holding company for group telecom operations) has ~ 95% stake in RITL through its wholly-owned subsidiary - Reliance Communications Infrastructure Limited and other trusts and holding companies.

RITL was originally incorporated as Reliance Communications Rajasthan Private Limited under the Companies Act, 1956 on April 16, 2001 and subsequently changed from private to public limited company on June 18, 2004. Name of the company was changed to Reliance Telecom Infrastructure Limited on October 11, 2006. Subsequently, as a result of a de-merger scheme approved by the high court on March 16, 2007, the tower infrastructure and related assets of Reliance Communications Limited (RCom) and Reliance Telecom Limited (RTL) were transferred to Reliance Telecom Infrastructure Limited on April 10, 2007 (effective date for the scheme). Subsequently, the name of the company was changed to Reliance Infratel Limited in January 2008.

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
1	Long-term Fund-based Limits (Term Loans)	Long term			May 2017	April 2017	Sep 2016	Jun 2016	-	March 2015
			475	475	[ICRA]BB B (Negative)	[ICRA]BB B (Negative)	[ICRA]B BB+ &	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (SO) (Negative)	[ICRA]B BB+ (SO) (Negative)
2	Long-term Unallocated Limits	Long term	1796	-	[ICRA]BB B (Negative)	[ICRA]BB B (Negative)	[ICRA]B BB+ &	[ICRA]B BB+ (Stable)	[ICRA]B BB+ (SO) (Negative)	[ICRA]B BB+ (SO) (Negative)
3	Short-term Fund Based Limits (Term Loans)	Short term	195	195	[ICRA]A4	[ICRA]A3+	[ICRA]A2 + &	[ICRA]A 2+	[ICRA]A2 +	[ICRA]A2 +
4	Short-term Non-fund Based Limits	Short term	50	-	[ICRA]A4	[ICRA]A3+	[ICRA]A2 + &	[ICRA]A 2+	[ICRA]A2 +	[ICRA]A2 +
5	Short Term Debt (STD) Programme	Short term	1,000	-	[ICRA]A4	[ICRA]A3+	[ICRA]A2 + &	[ICRA]A 2+	[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
Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Long-term Fund-based Limits (Term Loans)	Jun 2015	11%-12%	Feb 2018	475	[ICRA]BB(Negative)
Long-term Unallocated Limits	-	-	-	1,796	[ICRA]BB(Negative)
Short-term Fund Based Limits (Term Loans)	Not Outstanding	-	-	195	[ICRA]A4
Short-term Non-fund Based Limits	-	-	-	50	[ICRA]A4
Short Term Debt (STD) Programme	Not Placed	-	-	1,000	[ICRA]A4

Source: Reliance Communications Limited (Group)



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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