

Reliance Jio Infocomm Limited

April 05, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	17,000.0	[ICRA]AAA(Stable); Assigned
Non-convertible Debentures	23,000.0	[ICRA]AAA(Stable); Outstanding

Rating action

ICRA has assigned a long-term rating of [ICRA]AAA (pronounced ICRA triple A)[†] to the Rs. 17,000.0 crore non-convertible debentures of Reliance Jio Infocomm Limited (RJIL). ICRA also has an outstanding rating of [ICRA]AAA (pronounced ICRA triple A)[†] for the Rs. 23,000.0 crore non-convertible debentures of RJIL. The outlook on the long-term rating is Stable.

Rationale

The rating continues to factor in the strong managerial and financial support that RJIL derives from its parent Reliance Industries Limited (RIL), (rated [ICRA]AAA(Stable)/[ICRA]A1+ and Baa2 by Moody's) which holds 99.44% equity stake in RJIL, and the importance placed by RIL on the development and growth of the telecom business. The same is substantiated by RIL's demonstrated support to RJIL in terms of sizeable capital contribution as well as its stated intent to support the company's operations and its financial obligations. The rating also factors in the judicious mix of debt (including deferred payment obligations) and equity to fund the project cost for rolling out telecom services with debt to equity ratio of 1.2:1 as on March 31, 2017.

RJIL holds sizeable spectrum 1,108 MHz (uplink + downlink) across three bands namely 2300 MHz, 1800 MHz and 800 MHz. RJIL has also entered into agreement with RCom and RCom's affiliates to acquire latter's wireless spectrum, tower, fiber and media convergence node (MCN) assets, however the transaction is yet to be concluded. RJIL has deployed pan India Long-term Evolution (LTE) services across these bands. The company has been gaining subscribers at a healthy pace since inception and has achieved subscriber base of 168.4 million as on January 31, 2018. High consumption of voice and data services by the RJIL's customer base and the gradual ramp up in its tariff levels till now are key positives for the company's ability to ramp up ARPU's. ICRA also notes that effective from October 1, 2017 the IUC has been reduced by 57% to Re. 0.06/minute from earlier Re. 0.14/minute, which has resulted in reduction in operating costs of the company. Further these charges are to be scrapped from January 1, 2020.

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

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The industry has witnessed expedited consolidation over the last one year which is reducing the number of operators. Over a longer term, this is expected to improve the pricing power of the industry thereby allowing for better profitability. However, given the significant competitive pressures from other established telcos, it would be challenging for the company to continue the pace of subscriber addition while looking to improve its ARPU. This along with exploration of newer revenue streams would be critical for the company to achieve reasonable returns on the sizeable investments that have been made.

The company has reported profits in its first two quarters of operations. In Q3 FY2018 it reported operating revenues of Rs. 6,881 crore and net profit of Rs. 504 crore.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that RJIL will be able to maintain its momentum of healthy subscriber addition, benefit from the ongoing consolidation in the industry and continue to derive managerial and financial support from its parent RIL. The outlook may be revised to 'Negative' if RJIL is unable to achieve the required subscriber additions at the anticipated ARPU or if there is lack of support from the parent.

Key rating drivers

Credit strengths

- **Strong Parentage** – RJIL enjoys strong parentage by virtue of being wholly owned subsidiary of RIL. RIL is strongly committed to the project, given its strategic importance for the group, and the same is reflected by RIL's track record of sizeable capital contribution. Till December 31, 2017, the parent has invested Rs. 45,000 crore as equity and Rs. 62,750 crore as non-cumulative optionally convertible preference shares in RJIL. It has also guaranteed Rs. 19,700 crore (March 2017) of outstanding debt of RJIL.
- **Sizeable spectrum holding** – Over the years, RJIL has shored up its spectrum holding by acquiring spectrum across three bands namely 2300 MHz, 1800 MHz and 800 MHz. RJIL acquired spectrum from Reliance Communications Limited (RCom) in the 850 MHz band across 13 circles in 2016 and also entered into an agreement with RCom for sharing of spectrum in 850 MHz band across 20 circles. RJIL's total spectrum footprint stands at 1,108 MHz (uplink + downlink) with an average life of over 15 years, providing significant network capacity and extensive coverage. RJIL has also entered into agreement with RCom and RCom's affiliates to acquire latter's wireless spectrum, tower, fiber and media convergence node (MCN) assets, however the transaction is yet to be concluded.
- **Healthy pace of subscribers' addition** – The company launched its services on September 5, 2016 and since then has been able to garner 168.4 million subscribers as on January 31, 2018. This reflects healthy acceptability of company's services in the market despite steady uptick in its average pricing over last few months. Moreover, since the company has been offering high quantum of data to its subscribers, there has been significant increase in average data usage by subscribers in the industry. This is expected to drive the future ARPU growth for the company.

Credit challenges

- **Challenges for future growth** – Over the last one year, the industry has witnessed merger of some telcos and exit of some telcos. Thus, going forward gaining more subscribers from other established telcos is likely to become challenging.

- **High upfront investments may lead to weak return indicators in medium term** - the company acquired spectrum in 2010 and since then it has invested heavily in setting up a pan India network. The company has invested a sum of around Rs. 2.0 lakh crore in the business. Given such sizeable upfront investments the payback period is expected to be longer and in the interim the return on investments is expected to be moderate.

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

Reliance Jio Infocomm Limited (RJIL), a subsidiary of Reliance Industries Limited (“RIL”), has built an all-IP data network with latest 4G LTE technology, which supports voice over LTE. RIL holds 99.44% equity stake in RJIL. The network has potential to be upgraded to support more data, as technologies advance on to 5G, 6G and beyond. The company has created an eco-system comprising network, devices, applications and content to provide seamless services.

As per audited financials of FY2017, on standalone basis company has reported revenues of Rs. 0.0 crore and loss after tax of Rs. 31.4 crore as against revenues of Rs. 0.0 crore and loss after tax of Rs. 23.9 during FY2016.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	0.0	0.0
PAT (Rs. crore)	-23.9	-31.4
OPBDIT/OI (%)	NM	NM
RoCE (%)	-ve	-ve
Total Debt/TNW (times)	1.11	1.23
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	-ve	-ve
NWC/OI (%)	NM	NM

Source: RJIL’ annual reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2018	Date & Rating December 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 March 2016	Date & Rating in FY2015 -	
1	NCD	40,000	17,500	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	

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
INE110L08037	NCD (PPD 3)	June 16, 2014	9.25%	June 16, 2024	2,500	[ICRA]AAA (Stable)
INE110L08045	NCD (PPD 4)	November 18, 2014	8.95%	November 18, 2019	500	[ICRA]AAA (Stable)
INE110L08052	NCD (PPD 5) Option I	January 21, 2015	8.90%	January 21, 2020	1,000	[ICRA]AAA (Stable)
INE110L08060	NCD (PPD 5) Option I	January 21, 2015	9.00%	January 21, 2025	1,000	[ICRA]AAA (Stable)
INE110L07013	NCD (PPD 6)	July 31, 2015	8.55%	July 31, 2018	3,500	[ICRA]AAA (Stable)
INE110L07021	NCD (PPD 7) Option I	August 3, 2015	8.40%	August 3, 2018	675	[ICRA]AAA (Stable)
INE110L07039	NCD (PPD 7) Option I	August 3, 2015	8.40%	August 3, 2018	325	[ICRA]AAA (Stable)
INE110L07047	NCD (PPD 8)	October 30, 2015	8.25%	1/3rd each on October 30 2023, October 30 2024 and October 30 2025	3,000	[ICRA]AAA (Stable)
INE110L07054	NCD (PPD 9)	April 29, 2016	8.10%	April 29, 2019	2,250	[ICRA]AAA (Stable)
INE110L07062	NCD (PPD 10)	May 31, 2016	8.10%	May 31, 2019	750	[ICRA]AAA (Stable)
INE110L07062	NCD (PPD 11)	July 8, 2016	8.32%	July 8, 2021	2,000	[ICRA]AAA (Stable)
NA	NCD (Others)*	-	-	-	5,500	[ICRA]AAA (Stable)
NA	NCD (Others)*	-	-	-	17,000	[ICRA]AAA (Stable)

Source: RJIL

*Not issued

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