August 20, 2019 (Revised)

Reliance Industries Limited - Update on Material Event

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Non-Convertible Debenture Programme	40,000	[ICRA]AAA (Stable)
Commercial Paper	10,000	[ICRA]A1+
Total	**50,000**	

Material Event

On August 12, 2019, Reliance Industries Limited (RIL) announced that it has signed a non-binding Letter of Intent (LoI) with Saudi Aramco[1] for the sale of 20% stake in the former's Oil to Chemicals (O2C) division to Saudi Aramco. RIL's O2C division includes its refining and petrochemicals business along with RIL's 51% stake in its recently announced petroleum marketing JV with British Petroleum Plc (BP). As a part of the deal, Saudi Aramco would supply 500,000 barrels per day (equivalent to ~25 million metric tonnes per annum) of crude oil to RIL's refinery in Jamnagar on a long-term basis. The deal values RIL's O2C division at an Enterprise Value of US$ 75 billion which translates to an investment of US$ 15 billion from Saudi Aramco. The transaction is subject to due diligence, regulatory and other approvals.

Impact of the Material Event: Credit Positive

The ratings remain unchanged as the transaction, if concluded, would be a credit positive for the company. The proposed stake sale to Saudi Aramco would lead to proceeds of US$ 15 billion. The structure of the transaction is yet to be finalised. RIL is targeting closure of the transaction by March 2020 and would receive the purchase consideration from Saudi Aramco in three stages with 50% of the same coming in upon closure. The investment proceeds from Saudi Aramco along with another US$ 1 billion from BP for the latter's 49% stake in RIL's fuel retail business would help RIL achieve significant deleveraging. Moreover, the company announced the sale of its telecom tower business in July 2019 to Brookfields Asset Management Company, that was already transferred to an investment infrastructure trust (InvIT) as of March 31, 2019, for Rs. 25,215 crore. RIL transferred its fiber assets to another InVIT and plans to sell those assets to a strategic investor by March 2020.

Besides the above, RIL plans to list its Retail and Digital businesses as separate entities in the medium term allowing scope for further debt reduction at that time. ICRA expects RIL to also reap operational gains from the deal with assured supply of 25 MMTPA crude oil and access to multiple crude oil grades, some of which were previously not available to RIL.

The ratings continue to reflect RIL's established presence in the crude oil refining segment, its leadership position in the domestic petrochemicals industry with presence across several product segments and its integrated operations across exploration and production (E&P), refining and petrochemical businesses, providing diversity to the cash flow generation. The company operates one of the most complex refineries globally which improves its flexibility in terms of crude sourcing resulting in relatively high Gross Refining Margins (GRMs). RIL's strength in the petrochemicals business

[1]National oil and gas company of Saudi Arabia

has also grown following large-scale capacity expansions, including the refinery off-gas cracker, in the previous fiscal and healthy ramp up of operations. The company's digital services venture, where it has made sizeable investments, has been gaining subscribers at a healthy pace since inception and has achieved a subscriber base of 331.3 million as on June 30, 2019. Nonetheless, ICRA factors in the sensitivity of the company's profits and cash generation to refining and petrochemical margin cycle, and risks associated with the E&P business such as geological risk, lack of diversity in production blocks and moderate reserve replacement track record.

The previous detailed rating rationale is available on the following link: Click here

Document dated August 21, 2019 has been corrected with revisions as detailed below:

- Rephrasing of two statements in the "Impact of the material event" section on page 1

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