May 31, 2017

Reliance Industries Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Commercial Paper / Short-Term Non-Convertible Debenture Programme	Rs 5,000 crore (enhanced from Rs 5,000 crore to Rs. 10,000 crore)	[ICRA]A1+ assigned

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 5,000 crore[1] (enhanced from Rs 5,000 crore to Rs 10,000 crore) Commercial Paper / Short-Term Non-Convertible Debenture (NCD) programme of Reliance Industries Limited (RIL) [2].

Rationale

The rating takes into account the robust financial risk profile of the company reflected by comfortable gearing levels, strong coverage indicators and low working capital intensity along with overall healthy cash generation supported mainly by the refinery and petrochemical segments and high non-operating income. The rating also factors in the company's high financial flexibility derived from its healthy liquid investment portfolio (i.e. Rs. 77,226 crore cash & equivalents as on March 31, 2017 apart from sizeable treasury shares) and superior fund raising ability from the domestic and global banking as well as capital markets. The rating further takes into account the established presence of RIL 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 & production (E&P), refining and petrochemical businesses, providing diversity to the cash flow generation. The company has been in the midst of a large-scale capex programme over the last three years in its refining and petrochemical segments, and has completed most of its planned projects lately. ICRA notes that achieving healthy capacity utilisation post-commissioning of all the projects will be important to the recovery in the returns of the company.

ICRA, however, 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. Further, ICRA notes that the decline in production from KG-D6 field coupled with the drop in the domestic gas prices has significantly weakened the profitability from the E&P business. Moreover it has made large investments in the telecom venture (over Rs 1.5 lakh crore), where it has seen a healthy increase in its customer base so far. Further increase in its market share at reasonable ARPU[3] levels would remain important. RIL's credit profile could also be influenced by any large acquisitions or new investments in its energy/consumer businesses.

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[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[3] Average Revenue per User

Key rating drivers

Credit Strengths

- Established presence in the crude oil refining segment; High complexity along with large scale of refinery operations situated on a coast provides crude sourcing competitiveness and product placement flexibility
- Leadership position in the domestic petrochemicals industry with presence across all the product segments; consistently operating at higher-than-global operating rates due to cost competiveness and strong domestic demand Integrated operations across refining and petrochemical segments protect from cyclical downturn associated with any particular industry
- Strong coverage indicators, comfortable gearing and low working capital intensity
- Exceptionally high financial flexibility derived from its liquid investment portfolio, under-utilised bank limits, and superior fund raising ability from the domestic and global banking as well as capital markets

Credit Weakness

- Sensitivity of profits and cash generation to refining and petrochemical margin cycle
- Risks associated with the E&P businesses such as geological risk, lack of diversity in production blocks, moderate reserve replacement track record, along with the declining production levels of KG-D6 field
- Sizeable capex undertaken in the refining and petrochemical segments where the ability to achieve optimal capacity utilisation levels would remain important from credit perspective
- Large investments in the telecom sector through its subsidiary, Reliance Jio Infocomm Limited ([ICRA]AAA (Stable)); healthy scale up of customer base seen so far, and further increase in market share at reasonable ARPU levels would remain important

Description of key rating drivers:

RIL is an established player in the oil & gas sector, with two coastal refineries having a combined refining capacity of 62 MMTPA or 1.24 million barrels per day (mbpd), and also the largest refining complex at a single location. Crude oil requirements of RIL are largely met through imports and the sheer size of operations enables RIL to procure crude oil through Very Large Crude Carriers (VLCC) which results in competitive oceanic freight. Further, the company has product placement flexibility due to capability to manufacture over twenty grades of petrol and diesel and proximity to the shore. Overall, the company has a significant competitive edge over other global and domestic refineries due to its large scale of operations along with similar crude procurement and storage facilities with capability to process wide varieties of crude including some of the heaviest grades of crude as well as flexibility to manufacture products of high quality standards.

In terms of the petrochemicals business, RIL continues to be amongst the top 10 producers globally and commands a market share of over 30% in the domestic polymer and polyester market. RIL has both naphtha and gas-based crackers spread across various locations in India, which has enabled it to add significant value over the naphtha it produces. RIL also enjoys cost competitiveness in its petrochemicals business derived from its scale economy, access to superior process technology, development of specialty products and access to in-house naphtha, which enables it to withstand the commodity risks associated with the business. Further, the integration benefits will be further supported by commissioning of the off-gas cracker plant.

RIL remains exposed to the risks related to reducing production from its fields in the E&P business, especially its largest asset – the KG-D6 block. Gas volumes from KG-D6 have continuously declined over the years and have dropped below 8 mmscmd in recent quarters as compared to peak levels of 69.4 mmscmd in March 2010. Further, the low domestic gas prices have compounded the impact on returns from the business. The margins in the US shale gas business, where RIL also has significant investments, have also been impacted by the low price environment. ICRA believes that returns from RIL's E&P investments would continue to remain subdued on account of the muted gas production levels from KG-D6 and the low price environment in the medium term.

RIL's subsidiary, Reliance Jio Infocomm Limited (RJIL) has rolled out pan-India 4G long-term evolution (LTE) services, for which it has incurred over Rs. 150,000 crore capex on infrastructure and purchase of spectrum. The company holds the second-largest spectrum base amongst all telecom companies in the country. It has the highest amount of LTE-ready spectrum and is the only operator that has deployed LTE on a sub-GHz band throughout the country. Thus it enjoys a competitive advantage and is well-stocked to roll-out its network as its subscriber base expands, which increased to more than 108 million by end of FY2017.

The company has reported revenue growth of 12% on y-o-y basis in FY2017 driven by increase in prices of refining and petrochemical products, though partially offset by lower volumes from E&P business. The refining and petrochemicals margins continued to remain strong resulting in healthy profitability levels for the year. The company's gearing levels continue to remain comfortable (less than 1 time) and the debt coverage indicators remain strong. The company has significantly high financial flexibility arising from a large networth base, high cash balances, access to treasury shares, and good-standing among financial institutions. Besides, the company has a proven track record in raising funds from international/domestic bond markets with long tenures and low cost of debt.

Analytical approach: For arriving at the rating, ICRA has taken into account the business risk profile and financial risk drivers for RIL.

Links to applicable Criteria:
Corporate Credit Rating – A Note on Methodology
Rating Methodology for Downstream Oil Companies
Rating Methodology for Upstream Oil Companies

About the Company:
Reliance Industries Limited (RIL) is India's largest private sector enterprise. Starting with textiles in the late seventies, the company has pursued a strategy of backward vertical integration - in polyester, fibre intermediates, plastics, other petrochemicals, petroleum refining and oil and gas exploration and production – thereby making it a highly integrated player with presence across the energy value chain. RIL enjoys global leadership in most of its businesses, being the largest polyester yarn and fibre producer in the world and among the top five to ten producers in the world in major petrochemical products. Through its subsidiary companies, RIL is also involved in diversified businesses spanning retail, oil marketing and telecom.

On a consolidated basis, RIL reported a profit after tax (PAT) of Rs. 29,901 crore on an operating income (OI) of Rs. 330,180 crore in FY2017. RIL reported PAT of Rs. 29,745 crore on an OI of Rs. 293,298 crore in FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	**Name of Instrument**	**Current Rating**			**Chronology of Rating History for the past 3 years**		
		Type	**Rated amount**	**Month-year & Rating**	**Month-year & Rating in FY2017**	**Month-year & Rating in FY2016**	**Month-year & Rating in FY2015**
				May 2017	**December 2016**	**February 2016**	**January 2015**
1	Commercial Paper	Short Term	Rs 10,000 crore	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Commercial Paper	-	-	-	Rs 10,000 Crore	[ICRA]A1+

Source: RIL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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