November 02, 2017

Reliance Industries Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs crore)	Rating Action
Non-convertible Debentures (NCD)	10,000	[ICRA]AAA (Stable); assigned
Non-convertible Debentures (NCD)	10,000	[ICRA]AAA (Stable); outstanding
Commercial Papers (CP)	10,000	[ICRA]A1+; outstanding

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]AAA (pronounced ICRA triple A) rating on the 10,000-crore Non-convertible Debenture (NCD) programme of Reliance Industries Limited (RIL)[1]. The outlook on the long-term rating is Stable. ICRA also has an outstanding rating of [ICRA]AAA(Stable) on the Rs 10,000-crore NCD programme and an [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 10,000-crore Commercial Paper (CP) programme of RIL.

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 the 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 financial flexibility derived from its healthy liquid investment portfolio and superior fund-raising ability from the domestic and global banking as well as the 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 and production (E&P), its refining and petrochemical businesses, providing diversity to the cash flow generation. The company is nearing completion 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. ICRA notes that achieving healthy capacity utilisation, post-commissioning of all the projects, will be important for the recovery in the company's returns.

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 subdued gas and liquid prices in the US shale operations, the decline in production from the KG-D6 field, coupled with the drop in the domestic gas prices have significantly weakened the profitability from the E&P business. Moreover it has made large investments in the telecom venture (over Rs 2 lakh crore), where it has seen a healthy increase in its customer base so far. Further, an increase in its market share at reasonable ARPU[2] levels would remain important. RIL's credit profile could also be influenced by any large acquisitions or new investments in its energy/consumer businesses.

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

[2] Average Revenue per User

Key rating drivers

Credit strengths

- **Established presence in crude oil refining segment; high complexity along with large scale of refinery operations provide crude sourcing competitiveness and product placement flexibility:** 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 the 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 its ability to manufacture over 20 grades of petrol and diesel. and proximity to the shore. Overall, it also 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 standards.
- **Leadership position in the domestic petrochemicals industry with presence across all the product segments:** 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 had both naphtha as well as gas-based crackers earlier and now has also modified crackers to use Ethane. This has enabled it to add significant value over the naphtha it produces, further diversifying its manufacturing capabilities.
- **Integrated operations across refining and petrochemical segments protects company from cyclical downturn associated with any particular industry:** 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. All this enables it to withstand the commodity risks associated with the business. Further, the integration benefits are likely to be further supported by commissioning of the off-gas cracker plant.
- **Strong coverage indicators, comfortable gearing and low working capital intensity:** As on March 31, 2017, RIL’s total consolidated debt was at Rs. 196,601 crore, excluding capital creditors and deferred liabilities. The proportion of long-term debt to total debt is about 90-95%. Despite the ongoing large capex, the capital structure of the company has remained moderate with total net gearing increasing marginally to 0.45 time as on March 31, 2017 as compared to 0.39 time as on March 31, 2016. Coverage indicators remain comfortable with interest coverage of 12.0 times and Net Debt/OPBDITA of 2.6 times for FY2017. RIL’s working capital requirement, as reflected by the ratio of its net working capital (NWC) to operating income (OI), continues to remain negative, given its superior market position.
- **Exceptionally high financial flexibility:** RIL has reported a revenue growth of 21.2% on a YoY basis in H1 FY2018, driven by the increase in prices of refining and petrochemical products, though partially offset by lower volumes from the 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. There is significantly high financial flexibility arising from a large net worth base, high cash balances, access to treasury shares, and good-standing among financial institutions. Besides, it has a proven track record in raising funds from the international/domestic bond markets with long tenures and low cost of debt.

Credit weaknesses

- **Risks associated with the E&P businesses:** 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 the 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 its US shale gas business, where RIL also has significant investments, have also been impacted by the low price environment. ICRA believes 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.
- **Risks associated with generation of optimal returns from the large investments in the telecom sector:** RIL's subsidiary, Reliance Jio Infocomm Limited (RJIL, rated [ICRA]AAA - Stable) has rolled out, pan-India, its 4G long-term evolution (LTE) services, for which it has incurred over Rs. 2 lakh crore capex on infrastructure and purchase of the spectrum. The company holds the largest 4G-spectrum base amongst all telecom companies in the country and has the highest amount of LTE-ready spectrum. It 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 about 139 million by end of H1 FY2018. An increase in market share at reasonable average-revenue-per-user (ARPU) levels would be important for the generation of optimal returns from the business.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. Also, ICRA has combined the business and financial risk profiles of RIL, and other Group and associate companies, which have a high degree of operational integration with RIL and are thus of significant strategic importance to the company. These companies are Reliance Industries Holding Pvt Ltd (RIHPL), Reliance Utilities and Power Pvt Ltd (RUPPL), Reliance Ports and Terminals Ltd (RPTL) and Reliance Gas Transportation Infrastructure Ltd (RGTIL). ICRA believes that these entities are strongly integrated with RIL's operations at Jamnagar, Hazira, and the KG-D6 block.

Links to applicable criteria
Corporate Credit Rating 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 its 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 of major petrochemical products in the world. Through its subsidiary companies, RIL is also involved in diversified businesses spanning retail, oil marketing and telecom.

During H1 FY2018, the company, on a consolidated basis, reported a Profit After Tax (PAT) of Rs 17,176 crore on an operating income of Rs 185,622 crore. 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. It reported a PAT of Rs. 29,745 crore on an OI of Rs. 293,298 crore in FY2016.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	293,298	330,180
PAT (Rs. crore)	29,745	29,901
OPBDIT/ OI (%)	15.2%	15.1%
RoCE (%)	15.9%	18.0%
Net Debt/ TNW (times)	0.39	0.46
Net Debt/ OPBDIT (times)	2.2	2.6
Interest Coverage (times)	11.3	12.0
NWC/ OI (%)	-29%	-40%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

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 (2017)			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2018			Month-year & Rating in FY2017	Month- year & Rating in FY2016
				November 2017	August 2017	July 2017	May 2017	December 2016	February 2016
1	Non-Convertible Debenture (Proposed)	Long Term	10,000	[ICRA]AAA (Stable)		-	-	-	-
2	Non-Convertible Debenture	Long Term	10,000	[ICRA] AAA (Stable)	[ICRA] AAA (Stable)	-	-	-	-
3	Commercial Paper	Short Term	10,000	[ICRA] A1+	[ICRA]A1+	[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 Instrument

Name of the instrument	Date of Issuance /Sanction	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Non-convertible Debenture (Proposed)	-	-	-	Rs 10,000 Crore	[ICRA]AAA
Non-convertible Debenture	31-Aug-2017	7.00%	31-Aug-2022	Rs 5,000 Crore	[ICRA]AAA
Non-convertible Debenture	1-Sep-2017	6.78%	1-Sep-2020	Rs 2,500 Crore	[ICRA]AAA
Non-convertible Debenture	4-Sep-2017	6.80%	4-Sep-2020	Rs 2,500 Crore	[ICRA]AAA
Commercial Paper				Rs 10,000 Crore	[ICRA]A1+

Source: Reliance Industries Limited

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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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