

India Ratings Downgrades Reliance Infrastructure to 'IND D'; Off RWN

01

By Anita Nayak

AUG 2018

India Ratings and Research (Ind-Ra) has downgraded Reliance Infrastructure Limited's (R-Infra) Long-Term Issuer Rating to 'IND D' from 'IND BBB+' while resolving the Rating Watch Negative (RWN). The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Bank facilities	-	-	-	INR180	IND C/IND A4	Downgraded; Off RWN
Non-convertible debentures (NCDs)	-	-	-	INR11.25	IND C	Downgraded; Off RWN
Short-term debt/commercial paper (CP)	-	-	May-August 2018	INR13	IND A4	Downgraded; Off RWN
NCDs*	-	-	-	INR2.25	IND BBB-(SO)/Negative	Downgraded; Off RWN
Term loans*	-	-	September 2019	INR6.7	IND BBB-(SO)/Negative	Downgraded; Off RWN
CP#	-	-	May-October 2018	INR5	IND A1+(SO)	Affirmed

* Secured against regulatory asset collection (RAC) in R-Infra's Mumbai distribution business

Backed by an irrevocable, unconditional and non-transferable standby letter of credit from ICICI Bank Ltd (ICICI, Fitch Ratings Ltd: Issuer Default Rating: BBB-/Stable/F3). The payment mechanism, as defined in the transaction documents, provides for the payment through the invocation of the standby letter of credit to the beneficiary's account before/on the due date of the proposed CP.

KEY RATING DRIVERS

Ind-Ra has downgraded the Long-Term Issuer Rating to 'IND D' according to Ind-Ra's 'Rating Criteria for Distressed Debt Exchanges'. On 27 July 2018, R-Infra informed the stock exchanges about the non-payment of interest and principal obligations on Series 13A INR549 million NCDs (ISIN: INE036A07237) and Series 5 INR6,157 million NCDs (ISIN: INE036A07104) – both not rated by Ind-Ra – on the due dates of 26 July 2018 and 27 July 2018, respectively. The company expects to repay these NCDs in early August 2018 from the proposed sale of the Mumbai power business to Adani Transmission Limited.

The agency has downgraded its ratings on R-Infra's bank facilities and NCDs to 'IND C' to reflect the company's weakened liquidity profile and risk of default before the completion of the proposed sale.

The NCDs and term loans secured against RAC have been downgraded to 'IND BBB-(SO)' with a Negative Outlook. Ind-Ra derives comfort from the debt programme being backed by the first and exclusive charge of the investors on the proceeds of RAC approved by the regulatory commission to be recovered over 2014-2019. Also, the essential nature of the underlying business, identified stream of unencumbered cash flow, absence of any refinancing risk on account of matched cash flows, presence of a debt service reserve account of slightly over a quarter's debt service and amortisation of the debt by close to 67% provide strength to the debt servicing ability of the debt programme. A significant portion of RAC collections first comes in the company's cash management account before being transferred to the escrow account, resulting in commingling risk, which reflects the Negative Outlook. Any depletion in debt service reserve for servicing the NCDs and term loan facilities would result in a further negative rating action.

R-Infra expects to receive a total deal value of INR132.5 billion from the sale of Mumbai Power business to Adani Transmission, which includes businesses worth INR121 billion and approved regulatory assets of INR11.5 billion. The government of Maharashtra has filed an intervention application for the receipt of

taxes of over INR21 billion collected by R-Infra, but not paid to the government. This could reduce amount available to R-Infra for debt repayment.

In addition, the company has about INR50 billion of regulatory assets under approval. Thus, the total consideration value is estimated at INR188 billion. The company has received approvals from its shareholders, Competition Commission of India and Maharashtra Electricity Regulatory Commission for the said transaction. As stated in the regulatory filing, R-Infra has received a no objection certificate from 70% of lenders by value.

RATING SENSITIVITIES

Positive: Timely debt servicing on a sustained basis and successful deal completion resulting in the deleveraging of the company could lead to a positive rating action.

Negative: The instrument rating could be downgraded further in case of default on any of the facilities.

COMPANY PROFILE

R-Infra is the flagship company of the India-based Reliance Group, led by Anil Dhirubhai Ambani, active in the energy and infrastructure businesses. R-Infra's standalone operations constitute a vertically integrated power generation, transmission and distribution business catering to parts of Mumbai city. R-Infra also has an in-house engineering-procurement-construction division active in power and road segments. Its total generating capacity is 941MW, consisting of four thermal-based plants and a small wind power facility.

The company's revenues declined to INR92.6 billion in FY18 (FY17: INR95.1 billion) due to a fall in engineering-procurement-construction segment revenue to INR8.9 billion (INR15.7 billion) and a fall in regulatory income to INR2.9 billion (INR7.5 billion).

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR billion)	92.6	95.2
EBITDA (INR billion)	29.2	27.5
Finance costs (INR billion)	29.3	26.4
Gross debt (INR billion)	124.3	157.1
Cash and bank (INR billion)	5.8	2.4
Net debt (INR billion)	118.4	154.6
EBITDA margin (%)	31	29
EBITDA/finance cost (x)	1.00	1.04
Net debt/EBITDA (x)	4.06	5.61
Source: Financial statements of R-Infra, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch		
	Rating Type	Rated Limits (billion)	Rating	18 May 2018	23 March 2018	15 February 2017
Issuer rating	Long-term	-	IND D	IND BBB+/RWN	IND A/RWE	IND A+/RWN
Bank facilities*	Long-term/Short-term	INR180	IND C/IND A4	IND BBB+/RWN/IND A2+/RWN	IND A/RWE/IND A1/RWE	IND A+/RWN/IND A1+/RWN
NCDs*	Long-term	INR11.25	IND C	IND BBB+/RWN	IND A/RWE	IND A+/RWN
CP	Short-term	INR13	IND A4	IND A2+/RWN	IND A1/RWE	IND A1+/RWN
NCDs*	Long-term	INR2.25	IND BBB-(SO)/Negative	IND A(SO)/RWN	IND A+(SO)/RWE	IND AA-(SO)/RWN
Term loans	Long-term	INR6.7	IND BBB-(SO)/Negative	IND A(SO)/RWN	IND A+(SO)/RWE	IND AA-(SO)/RWN
CP	Short-term	INR5.0	IND A1+(SO)	IND A1+(SO)	IND A1+	IND A1+(SO)

* Details in Annexure

ANNEXURE

Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating
Bank facilities	-	-	-	INR113.5	IND C/IND A4
Proposed fund-based limits*	-	-	-	INR11.3	Provisional IND C/Provisional IND A4
Proposed non-fund-based limits*	-	-	-	INR55.2	Provisional IND C/Provisional IND A4

*The ratings are provisional and shall be confirmed upon the receipt of sanction letters by Ind-Ra

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE036A07039	19 August 2003	6.7	19 August 2018	INR1.25	IND C
NCDs	INE036A07476	5 March 2015	10.65	25 September 2018	INR1	IND BBB-(SO)/Negative
NCDs	INE036A07484	5 March 2015	10.65	25 March 2019	INR1	IND BBB-(SO)/Negative
NCDs	INE036A07492	5 March 2015	10.65	25 March 2019	INR0.25	IND BBB-(SO)/Negative
NCDs*	INE036A07559	28 March 2018	11.50	28 June 2019	INR10	IND C
Total					INR13.50	

*Out of INR10 billion, the company placed INR0.75 billion in March 2018

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIARATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.INDIARATINGS.CO.IN/RATING-DEFINITIONS](https://www.indiaratings.co.in/rating-definitions). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIARATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

[Primary Analyst](#)

Anita Nayak

Senior Analyst

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051

+91 22 40001758

[Secondary Analyst](#)

Niraj Rathi

Associate Director

+91 40 40258622

[Committee Chairperson](#)

Abhishek Bhattacharya

Director and Co Head Corporates

+91 22 40001786

[Media Relation](#)

Namita Sharma

Manager – Corporate Communication

+91 22 40356121 >
