Universe International Journal of Interdisciplinary Research
(Peer Reviewed Refereed Journal)

© UIJIR | ISSN (O) – 2582-6417
OCT. 2020 | Vol. 1 Issue 5
www.uijir.com

FINANCIAL RESTRUCTURING: THE CASE OF RELIANCE INDUSTRIES LIMITED

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DOI No. – 08.2020-25662434

Abstract

Financial restructuring is the process in which assets and liabilities are restructured in such a way, that the overall capital structures of the company reorganize and revamped to enhance shareholder' wealth. This phase is mostly followed by every business at some point of time, but not always to take care of any losses and shortfalls. The Reliance Industries Limited has also followed the process of financial restructuring. The main reason for financial restructuring by Reliance Industries Limited can be traced down from its balance sheet. The total debt of the company was Rs 2.88 Lakh crore and the net debt was Rs.1.54 lakh crore as on 31st March 2019. However net debt has been increased to 1.61 lakh crore as on 31st March 2020.

At the annual general meeting held on 12th August 2019, the chairman of Reliance Industries Limited, Mr. Mukesh Ambani announced the road map to make RIL, a debt free company before 31st March 2021. On these lines he has announced that company will sell 20% stake in oil and petrochemical business to Saudi' Aramco which will fetch a staggering amount of $15 billion or more than Rs.1 lakh crore. In the first quarter of FY 2020-21, Reliance Industries Limited is able to rise around Rs 1.15 lakh crore by divesting less than 25% in its subsidiary digital arm, Jio platforms to global tech investors. Beside it, RIL also have raised 54000 crores through right issue. In total the company has raised the capital of Rs 1.69 lakh crore from private placement and right issue during current quarter. This step would make the Reliance Industries limited a net debt free companies much before the scheduled time i.e.31st March 2021. Now the question arises, how will this financial restructuring benefit the company? Can fund raising through equity capital increase EPS of company?

Keywords: *Financial Restructuring, Reliance, Industries, Assets, Liabilities.*

INTRODUCTION

"Don't make promises you don't intend to keep", Mukesh Ambani , Chairman and Managing Director Reliance Industries in his 42nd Annual General Meeting in August 2019 committed to his valuable stakeholders about making Reliance Industries Net-Debt free before March 2021.He fulfilled his promise 8 months before. RIL, Fortune 500 Company and the largest company in terms of market capitalization evolved from Textiles and a polyester company to an integrated conglomerate across Energy, Materials, Retail, entertainment & Digital services. As per the records from Reliance Books of Accounts, company's net debt was Rs 1,61,035 crores out of which outstanding debt was Rs 3.36 lakh crores and cash and cash equivalent worth Rs 1.75 lakh Crores as on March 31, 2020. The stock was on shot till stratosphere after the announcement. Reliance Industries recently announced about company becoming net-debt free after fund raising of Rs 1.16 lakh crore from the global tech investors in its wholly owned

Subsidiary Platforms limited and Rs 53,000 crore from proceeds of Rights Issue. Now the question arises, is the company actually net-debt free? With the Jio Deal being struck and only the quarter of Rights Issue proceeds received so far, how the cash became equivalent to debt amount?

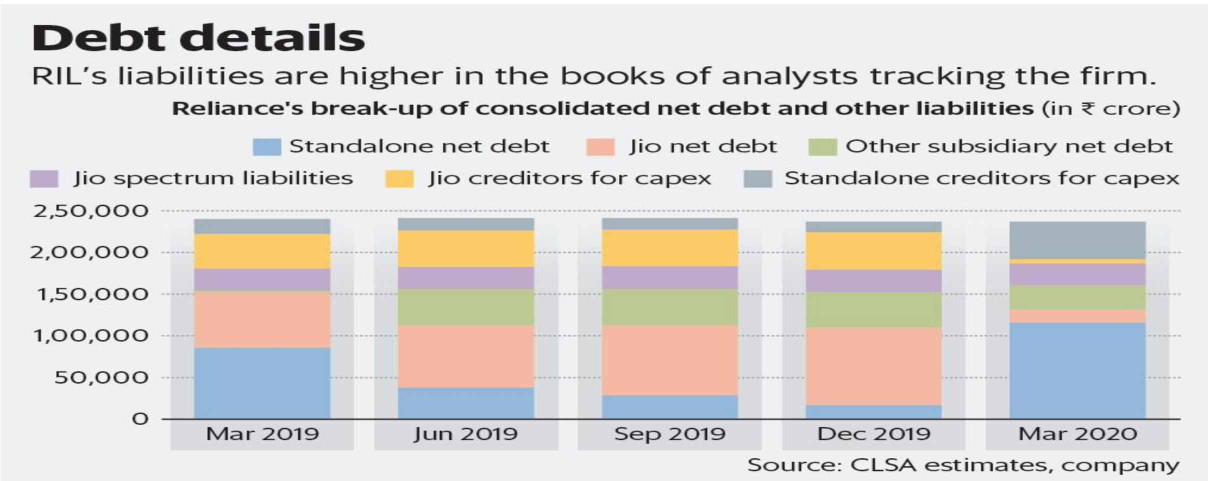
This re-amalgamation move is strategized to facilitate planned investments in its group business namely Reliance Jio, Reliance Retail, Refining and Petrochemicals. All of these are in addition to RIL deal with Aramco (Saudi Arabian state oil company) for 20% equity divestment in RIL for US$ 15 billion (Rs. 1.03 Trillion), however due to COVID-19 and uncertainties in energy market; the deal has not progressed as per timeline.

PROBLEM: HOUSE OF DEBT

Being an Indian largest company by market capitalization, the Reliance Industries Limited must be under a pressure to perform all the time. Since decades Reliance has a leading position in the industry, a position that changed once it has decided to diversify form its core business activities.

Till 2012, Reliance industries were net debt free company, but the scenario has changed after company decided to expand the telecom, petrochemical and retail business. The company has seen a 438% surge in gross debt in the last one decade. It was believed that Mr. Mukesh Ambani has written $ 24 billion cheque for setting up a fourth-generation mobile service apart from expanding operations in petrochemicals and retail sector. The impact of such an expansion is that, the debt has increased at a rapid pace. The company has reported that in 2nd quarter of financial year 2019-2020, debt has increased by Rs 4,477 crore to Rs 2,91,982 crore on account of capital expenditure to the extent of Rs 19,905 crore. The conglomerate has a total debt of Rs 1.54 trillion (fig.1) as on March 2019. The position of net debt has further increased to Rs 1.6 trillion as per the last balance sheet on 31st March 2020.

However, analyst from different firms like CLSA, Bernstein, Kotak institutional equities, Goldman Sachs have stated the net liabilities of Reliance Industries even higher between Rs 2.4 trillion to 2.6 trillion.(as referred in Fig1) They have considered deferred spectrum liabilities and capex creditors to come to this figure. This has created a wide gap between the net debt reported by Reliance industries and the estimated of the debt made by many credit rating agencies and business analyst. Since the company has been widely known to deploy a "high debt high cash" strategy, it seems that company is enjoying its strategy till now.



STRATEGIC DEAL

The main advantage to RIL from all of these transactions would be to write off its debt. Additionally, when the company is bringing more investment through various routs, it is not only planning to scale up the technology and more services in its current business, but also focusing on the diversification/ buyout deals in many other segments in coming period, using this fund. These transactions would also alleviate the probable impact of lower revenues due to current pandemic, as analyst expects around 15%- 18% drop in EBITDA of RIL in FY 2020-21 due to weakening demand in RIL' refinery and petrochemical business. Moreover, the social distancing during current pandemic has resulted into jump in technology based digital solutions, which is attracting the investors for such technology companies.

Of course, with every round of disinvestment in Jio platforms, RIL is lowering down controlling and earning opportunities in its technology business, which is expected to be major revenue source for RIL in future. However, the company looks committed to be a technology major in coming days, but at the same time it cannot ignore the competitions in many verticals of the technology segment.

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