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FROM NET DEBT FREE TO DEBT EFFICIENT: A CASE STUDY ON RELIANCE INDUSTRIES LIMITED

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Abstract
The case study on Reliance Industries Limited (RIL) enquires into the strategic financial tactics undertaken by the company to transform itself from being net debt-free to a debt-efficient entity. In January 2022, RIL raised $4 billion through foreign currency bonds. This was a significant step in reducing its cost of capital. This paper examines the aggressive leveraging phase of Reliance Industries Limited between 2012 and 2019, the subsequent steps undertaken by the company to achieve net zero debt by March 2021, and the implications of the USD bond issuance in 2022. The study provides valuable insights into RIL's approach to capital structure decisions and its impact on shareholder value creation.

Keywords: Reliance Industries Limited, net debt zero, capital structure, foreign currency bonds, shareholder value creation.

Introduction

Reliance Industries Limited, a major conglomerate in India, has been a dominant force in the nation's industrial sector for an extended period. The company, established in 1966 by Dhirubhai Ambani and headquartered in Mumbai, has since expanded to incorporate various businesses, such as petrochemicals, energy, natural gas, retail, telecommunications, textiles, and mass media. Reliance has undergone a tremendous shift under the leadership of Mukesh Ambani, the current chairman and managing director. The company has gone from debt-free to issuing $4 billion in January 2022 through foreign currency bonds. His leadership has been instrumental in this transformation. Reliance was a debt-free corporation in its early days, a performance considered highly exceptional in the context of the Indian corporate scene. Because of the prudent management of its finances and strategic investments, the company could keep its balance sheet in good shape, positioning it for future growth and establishment. This debt-free status was not only an acknowledgment of the financial management that Reliance had implemented, but it also provided a substantial advantage over its competitors. The corporation could take advantage of the possibility of executing strategic decisions without worrying about the burden of high debt repayments.

The issuance of US bonds was the largest-ever foreign currency bond issue made by an Indian company. Reliance's strategic decision to issue American bonds enabled the company to diversify its funding sources and access additional international investors (Vijayakumar & Nethravathi, 2021). Reliance's status as a significant participant in the Indian and international business landscape was further solidified by its ability to raise funds for its ongoing projects and investments through the global capital markets. This strategic financial move, marked by Srikanth Venkatachari, Joint CFO of RIL, highlighted the tightest credit spreads for any Indian corporation across the long-dated tenors. The issuance of this debt was done in three tranches and has helped RIL to achieve competitive pricing over US Treasury benchmarks, significantly reducing its cost of capital (Reuters, 2022).

RIL's journey from a net debt-free company to a debt-efficient firm involved several strategic phases, underlining its capacity to adapt its financial strategies to changing market conditions and growth opportunities. This case study explores these phases and comprehensively explains RIL's economic transformation and strategic value creation through debt.

Value Creation Using Debt

In today's globalized market, creating value is essential for businesses to distinguish themselves from their rivals and achieve long-term success. One of the main principles that assist companies in becoming profitable and growing is the capacity to generate and enhance the value that stakeholders receive. However, although the path from accruing debt to achieving profitability is laden with difficulties, it also presents a one-of-a-kind chance for development and innovation. Enterprises can transform their obligations into assets by adopting a strategic approach to debt management. This helps to build a culture of resilience and value creation inside the organization.

Initial Financial Strategy of Reliance

Reliance Industries Limited (RIL) is one of India's largest private sector conglomerates, having activities in varied businesses like hydrocarbon, petroleum, petrochemicals, retail, textile, and Special economic zone development. The manufacturing facilities are in Allahabad, Barabanki, Dahej, Haira, Hoshiarpur, Jamnagar, Nagothane, Nagpur, Naroda, Patalganga, Silvassa & Vadodara. Founded by the late Shri Dhirubhai H. Ambani in 1966 as a small textile manufacturing unit, RIL was incorporated in 1973. The earlier Reliance Textile Corporation was renamed Reliance Industries Limited in 1985. 1995-96, the company entered the telecom industry through a joint venture with NYNEX, USA, and promoted Reliance Telecom Private Limited. Reliance Industries Limited maintained a net debt-free status until 2012, evidence of its robust financial health and conservative approach to debt management. The enterprise focused on organic growth and reinvestment of earnings to fund its expansion. This strategy effectively maintained a stable financial position but limited the company's ability to rapidly grow inorganically by capturing new opportunities and new markets.

Shift to Aggressive Leveraging (2012-2019)

Until 2012, the company remained a Petrochemical major and a net debt-free company. Between 2012 and 2019, RIL adopted an aggressive leveraging strategy to fuel its growth, especially in the telecommunications sector, with the launch of Reliance Jio. Powered by its success in the telecom sector, in 2015, RIL invested $18 billion in India’s top public sector companies through private placement. This was almost 15% of the combined assets, which was $117 billion. Besides, for upgrading the core business of refining and petrochemicals for funding the rapid expansion in retail, telecommunications, and e-

commerce businesses, the company has an accumulated gross debt of more than Rs 2.87 lakh crore. In 2016, with Reliance Jio's launch, RIL targeted creating an array of digital products to compete with Digital giants like Google, Amazon, and Netflix. Hence, within 24 months, RIL acquired stakes in around twenty-four start-ups and six small firms. But since then, its gross debt has witnessed a 438% increase. At the end of FY'19, net debt was Rs 1.54 lakh crore while net cash was 1.33 lakh crore. This period saw RIL's gross debt expand to over Rs 2.87 lakh crore by 2019, a 438% increase, as the company invested heavily in upgrading its core business and expanding into new sectors such as digital services, retail, and e-commerce (Financial Times, 2019).
Significant investments in technology and infrastructure marked this phase of aggressive leveraging to support Reliance Jio, which aimed to revolutionize the Indian telecom market. The massive capital expenditure was funded through debt, significantly increasing the company's financial leverage.
In August 2019, Credit Suisse, an international broking firm, red-flagged RIL's total financial liabilities and downgraded RIL's stock from 'neutral' to 'underperform'. Credit Suisse downgraded the share rating and slashed its target price from Rs.1395 to Rs. 995. The broking report of Credit Suisse said that the negative free cash flow is likely to continue in FY 2020-21 due to the pressure on the margins in refining and Petrochemicals. The share price of the giant conglomerate had taken a big hit due to this. With this downgradation, the investors' confidence was shaky, and the investors were also concerned about the group's rising debt levels. To reinstate the confidence, Chairman Mukesh Ambani promised in August 2019 that within the next 18 months, Reliance will be a zero net-debt company.

Strategic Investments and Growth

RIL's strategy during this period involved acquiring stakes in various startups and small firms to build a comprehensive digital ecosystem. The company targeted creating multiple digital products to compete with global digital giants like Google, Amazon, and Netflix. Within 24 months, RIL acquired stakes in around 24 startups and six small firms (Business Standard, 2019).
However, this aggressive expansion led to a substantial increase in debt, raising concerns among investors and analysts. In August 2019, Credit Suisse downgraded RIL's stock, citing high liabilities, lower refining and petrochemical margins, and negative free cash flow for six consecutive years. This downgrading impacted investor confidence and the company's stock price (Bloomberg, 2019).

Becoming a Net Zero Debt Company-Strategic Deleveraging Plan

To address investor concerns and stabilize the company's financial position, Chairman Mukesh Ambani announced a plan in August 2019 to achieve net zero debt within 18 months. While making this promise, he had a clear roadmap of strategic financing, which would make the company a net debt-free entity. The company was already in talks with the strategic and financial investors for the consumer businesses Jio and Reliance Retail. He had a strategic plan to induct the leading global partners in these businesses and plan the listing of these companies in the coming years. While the globe was struggling with the COVID-19 Pandemic, the company was working to fulfill its commitment. The company raised over ₹1.68 lakh crore in less than two months against its net debt of ₹1.61 lakh crore on 31st March 2020, making RIL a net debt-free company. This plan included various asset sale initiatives and strategic investments from global partners. Ambani's announcement also promised higher dividends and bonus issues for shareholders, which helped restore investor confidence (Reuters, 2019).

Execution of the Plan

Mukesh Ambani's promise to make RIL a net zero-debt company by March 2021 was realized ahead of schedule. The company raised over ₹1.68 lakh crore in less than two months, surpassing its net debt of

₹1.61 lakh crore as of March 31, 2020. This achievement was facilitated by investments from global players like Facebook, Silver Lake, Vista Equity Partners, General Atlantic, KKR, Mubadala, ADIA, TPG, L Catterton, and PIF, which collectively acquired a 24.7% stake in Jio Platforms (Financial Express, 2020).
Additionally, a rights issue raised around ₹53 crore, marking India's largest globally by a non-financial entity in the last decade. As part of the rights issue, existing shareholders got one new share for every 15 they owned for Rs 1,257 per share, which was at a 14% discount. The rights issue was subscribed 1.59 times and was the largest in India and the world by a non-financial entity in the last ten years. The joint venture with British oil and gas central BP, which invested ₹7000 crore in Reliance Petroleum, further strengthened RIL's financial position (Economic Times, 2020).

Impact of Strategic Investments
The strategic investments and sale of assets not only helped RIL achieve its goal of becoming a net zero-debt company but also provided a robust platform for future growth. The funds raised through these initiatives were used to enhance RIL's digital and retail businesses, positioning the company as a leader in these sectors.

The successful execution of the deleveraging plan demonstrated RIL's ability to adapt its financial strategy to market conditions and investor expectations. The company's proactive approach to managing its capital structure helped restore investor confidence and support its long-term growth objectives.

The US Dollar Bond 2022-Largest-ever foreign Currency Bond Issuance
In January 2022, RIL continued its innovative capital market strategies by issuing the largest-ever foreign currency bonds worth USD 4 billion. The bonds, issued in three tranches with varying tenors and competitive coupon rates, were priced at tight credit spreads over US Treasuries benchmarks. This move aimed to refinance existing borrowings, extend repayment tenures, and reduce the cost of funds, thereby enhancing RIL's debt efficiency (Hindu Business Line, 2022).

Details of the Bond Issuance
The issuance was divided into three tranches:
1. **USD 1.5 billion for ten years at 2.875%**
2. **USD 1.75 billion for 30 years at 3.625%**
3. **USD 750 million for 40 years at 3.750%**

The notes were priced at 120 basis points, 160 basis points, and 170 basis points over the respective US Treasuries benchmarks. This competitive pricing reflected investor confidence in RIL's creditworthiness and strategic direction.

Strategic Implications
Investors and analysts believe that this fundraising through US bonds will increase RIL's cost of funds and extend the repayment tenure, making RIL a debt-efficient company. The bond proceeds will be primarily used for refinancing existing borrowings, which will help RIL manage its debt more effectively and improve its financial flexibility (S&P Global, 2022).

Impact on Financial Health

The successful issuance of foreign currency bonds highlighted RIL's ability to access global capital markets and secure financing at competitive rates. This move reduced the company's cost of capital and provided additional financial resources to support its growth initiatives.
The strategic use of debt through bond issuance enabled RIL to optimize its capital structure and maintain a balance between debt and equity. This approach ensured that the company could leverage its financial resources to drive growth while effectively managing financial risks.

Strategic Implications and Future Outlook

Financial Transformation

RIL's strategic use of debt helped it capitalize on growth opportunities and manage financial risks effectively. By aligning its financial strategy with market conditions, RIL has set a benchmark for other companies in managing debt while pursuing aggressive growth. This strategic financial management provides a model for balancing leverage and equity, ensuring long-term sustainability and profitability (McKinsey & Company, 2021).

Innovations in Financial Strategy

Innovations in Financial management significantly impact business strategies across various dimensions. Its debt management and capital structure optimization approach demonstrate RIL's potential to innovate in financial strategy. By making preventative efforts to address investor concerns and react to shifting market conditions, the company shows its dedication to preserving its financial health and augmenting its shareholders' value.

Future Growth Prospects

Within the context of RIL's ongoing process of change, the strategic management of the company's finances will continue to be of critical importance to the growth and success of the organization. The ability to properly leverage debt and maintain a competitive edge in the global market is necessary for the firm to fulfill its long-term growth goals successfully. By strongly emphasizing innovation, digital transformation, and strategic investments, RIL will ensure that it continues to maintain its leadership position in the market and drive its future growth. (Forbes, 2021)

Conclusion

The transformation of Reliance Industries from a firm with no debt to a global issuer of bonds is evidence of the company's financial expertise and strategic foresight. Reliance Industries Limited has demonstrated a strategic and effective use of debt to drive growth and create shareholder value. The transition from a net debt-free company to a highly leveraged entity, achieving net zero debt and finally becoming debt-efficient, underscores RIL's innovative approach to capital structure management. The successful issuance of USD 4 billion in foreign currency bonds highlights RIL's ability to leverage debt efficiently, maintaining a competitive edge in the global market. As RIL continues to evolve, its strategic financial management will remain critical to its growth and success value. Reliance Industries' decision to issue US notes after becoming debt-free demonstrates its strategic flexibility and economic wisdom. This strengthens the company's robust financial base and supports its goal of becoming a worldwide industry leader. This clever financial tactic bolsters Reliance's upcoming expansion stage, guaranteeing its continued leadership in industry revolution and value generation.

This detailed analysis provides an in-depth look at Reliance Industries Limited's strategic financial decisions and their implications. It offers valuable insights into how the company managed its capital structure to achieve significant milestones and maintain its competitive edge.

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