RIL gets Sebi approval to hive off O2C business into independent subsidiary

Mukesh Ambani-controlled Reliance Industries Limited (RIL), which has proposed hiving off its oil to chemicals (O2C) business into an independent subsidiary, on Tuesday said it had received an approval from the Securities and Exchange Board of India (Sebi) and stock exchanges to create this subsidiary.

The company now requires the approval of equity shareholders and creditors, regulatory authorities, and the income-tax authority, besides the National Company Law Tribunals (NCLTs) in Mumbai and Ahmedabad. RIL said the approval process had commenced and was expected to be completed by the second quarter of the 2021-22 financial year.

In a presentation to investors on Tuesday, RIL said that the creation of this subsidiary would facilitate value creation through strategic partnerships and attract dedicated pools of investor capital. The ongoing talks with Aramco for a stake sale in RIL were also mentioned in this presentation. When finalised, the deal is expected to be one of the largest downstream transactions in India.

Commenting on the move, Morgan Stanley said that RIL's de-merger plan for O2C business is a step towards monetisation and acceleration of its new energy and material plans into batteries, hydrogen, renewables and carbon capture – all of which point to the next leg of multiple expansion and clarity on the next investment cycle.

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“The reorganisation will lead to RIL carving out the O2C business as a separate subsidiary and support strategic partnerships and new investors in the business,” Morgan Stanley said.

Moody's Investors Service, meanwhile, said: “RIL's separation of its O2C business to a subsidiary will facilitate a potential stake sale to Aramco, possibly enabling a further reduction in RIL's net debt. Until the stake sale is completed, there will be no subordination risk for RIL’s lenders, as the company will continue to have full access to the O2C business’ cash flows, given its full ownership of and no external debt at the new subsidiary.”

Mukesh Ambani

THE REORGANISATION PLAN

- RIL will transfer $40 bn of long-term assets, $2 bn of net working capital, and $5 bn of non-current liabilities to the O2C entity
- This will be done for a consideration of $25 bn of long-dated loan and $12 bn of equity
- O2C arm to hold Reliance's oil refinery and petrochemical assets and retail fuel business
- RIL will house only the upstream oil and gas exploration and production business, including KG-D6 block

RIL said it would transfer all its refining, marketing and petrochemical assets to O2C. This includes RIL's 51 per cent stake in its joint venture with BP, the existing fuel retailing subsidiary. The management control of the O2C continues with RIL and the existing O2C operating team moves with transfer of business. There would be no dilution of earnings or any restriction on cash flows, the company said.

This O2C portfolio spreads across fuels, polymers, elastomers, aromatics and fibre, intermediates, and polyesters. Its products would cater to transportation fuel, construction, agriculture, automobile, consumer goods, tyres, automobiles, polyester and textiles industries, apparel industries and beverages.

RIL said it has more than 1,400 retail outlets and aims to have 5,500 of these in over the next 5 years. It also wants to be India's largest and most preferred provider of mobility, including EV charging and low-carbon solutions.

The presentation said that the RIL standalone entity would have all existing segments other than the O2C business. These include RIL's existing upstream oil and gas assets, retail (including investments in subsidiaries), and digital services (including investments in subsidiaries) among others.

Investors upbeat as RIL shifts gear

The latest move will make it easier for RIL to sell stake to Saudi Aramco. Once complete, the deal would significantly lower RIL's debt levels, and allow it to focus on its vision of clean and green energy development. RIL wants to be net carbon zero by 2035.

Reliance Industries