

November 10, 2022

Summit Digital Infrastructure Limited: Rating reaffirmed at [ICRA]AAA (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	1,000.00	1,000.00	[ICRA]AAA (Stable) reaffirmed
Total	1,000.00	1,000.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the rating takes into account the strong business linkages between Summit Digital Infrastructure Limited (SDIL) and Reliance Jio Infocomm Limited (RJIL), a step-down subsidiary of Reliance Industries Limited (RIL, rated [ICRA]AAA (Stable) / [ICRA]A1+). The rating factors in the visibility of cash flows to be generated by SDIL, driven by the terms of a 30-year non-cancellable master service agreement (MSA) and the fixed price nature of the operations & maintenance (O&M) and project execution contracts. The MSA assures a certain level of revenue for SDIL over the next 30 years till 2051 with RJIL assuring anchor tenancy on 174,451 towers to be set up by SDIL. As on September 30, 2022, SDIL had 154,372 towers wherein RJIL is the anchor tenant. A major share of SDIL's tower infrastructure is fiberised, enabling better capabilities to handle 4G networks. This, along with increasing data requirements, would enable SDIL to attract tenancies from other telecom operators as well which provides further upside to cash generation.

The rating also factors in the ability of SDIL to service the external debt comfortably over the long run, while improvement in the tenancy ratio provides upside to the financial risk profile. Further, the strong parentage of Data Infrastructure Trust (DIT), which is backed by Brookfield Infrastructure Partners, ensures healthy refinancing capabilities for SDIL and is a rating comfort.

SDIL's external debt was around ~ Rs. 23,376 crore at the end of September 2022 and the same is capped at Rs. 30,008 crore for setting up 174,451 towers. The company has been refinancing its debt obligations to achieve a favourable maturity profile. SDIL's parent DIT is backed by Brookfield Infrastructure Partners and currently has two assets under its fold with SDIL being the material asset. Currently, the InvIT meets the regulatory requirement of leveraging as mandated under the regulations and is expected to maintain the same going forward with the current asset base. However, any material leveraging at the InvIT level will remain a key monitorable.

The Stable outlook reflects ICRA's expectation that SDIL's cash generation will remain stable with robust agreements in place both on the revenue and the cost side. The company should be able to service the external debt comfortably and keep its credit profile stable.

Key rating drivers and their description

Credit strengths

Strong business profile; linkages and 30-year MSA and fixed contracts with RJIL provide healthy revenue and EBITDA generation visibility - RJIL and SDIL have signed a non-cancellable master service agreement (MSA) for 30 years, starting from August 31, 2020, even if force majeure events arise. As per the agreement, RJIL has agreed to be the anchor tenant for 174,451 towers for the next 30 years (till 2051). SDIL also has the right of first offer (ROFO) to RJIL in case the company wants to install passive tower infrastructure and services on new towers apart from the 174,451 towers during the MSA period. The MSA offers monthly rental receipts (inclusive of monthly site premium) from RJIL along with a built-in escalation clause. The agreement provides certainty of revenue in scenarios where RJIL decommissions a tower or SDIL shifts a tower as well. While RJIL is the anchor tenant, SDIL can still offer its towers to other telecom operators as additional tenants as well. SDIL has also

signed fixed priced O&M contracts and project execution contracts which will ensure certainty in EBITDA and cash flows over the course of the agreement.

Exceptional financial flexibility and strong parentage - SDIL benefits from its strong parentage in the form of Data Infrastructure Trust, which is backed by Brookfield Infrastructure Partners as its sponsor, translating into exceptional financial flexibility

Relatively young tower portfolio; geographical diversification across 22 circles of the country - RJIL started expanding its portfolio very recently and thus the average age of the portfolio is less than three years, indicating a very young tower portfolio. Moreover, majority of these towers (more than 50%) are fiberised, making them 5G ready. Majority of the towers are ground-based towers (GBT), which are shareable with an allowance of more than one tenancy. The balance is in the form of rooftop towers (RTT), of which around some proportion are shareable and the remaining are ground-based masts (GBM) and cell on wheels (COW) which are not designed to have more than one tenancy. The company has been adding non RJIL tenancies on some of the towers, which will aid its return metrics to some extent.

Subordinated loan from parent with features of quasi equity - DIT acquired SDIL for Rs. 25, 215 crores, including Rs. 215 crore as equity, while the remaining was put in as subordinated debt which was utilised to repay certain portion of the long-term debt and other financial liabilities. The loan is subordinated to all external debt and does not have any fixed repayment schedule as per the agreement between the parent and SDIL and is repayable on the availability of surplus cashflows.

Credit challenges

Tenancy ratio of 1.0x limits return metrics and cash generation - As per the MSA terms, RJIL will be the anchor tenant for 174,451 towers to be set up by SDIL, indicating a tenancy ratio of 1.0x which limits the upsides in terms of cash generation and returns. The same, however, is sufficient to service the external debt comfortably. With more than 50% of the towers being fiberised and allowed to have more than one tenant, SDIL should attract tenancies from other telecom operators as well which should further improve the cash generation.

Capital-intensive business: The telecom tower industry is capital-intensive in nature as the players need to incur sizeable capex to set up the towers. Multiple tenancies, however, come at a later stage and there is a gestation period in recovering the investments. While for SDIL, anchor tenancy is already built in the MSA, additional tenancies could take time to build up.

Liquidity position: Strong

While the company is not expected to maintain sizeable cash balances as majority of the surplus will be up-streamed to the trust, the stability of the cash flow generation and the long tenure of the MSA provide comfort from a liquidity perspective. This, along with exceptional financial flexibility and a fairly long-tenured debt, adds to the comfort.

Rating sensitivities

Positive factors – NA

Negative factors – Deterioration in the credit profile of RJIL or weakening of the linkages between SDIL and RJIL can lead to a rating downgrade. Further, substantial early principal repayment of the sponsor loan can lead to a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Telecom Infrastructure Providers Rating Approach - Implicit parent or group support
Parent/Group Support	Parent company: Data Infrastructure Trust

	SDIL has a strategic importance to the InvIT and derives financial flexibility from being part of the InvIT which is backed by Brookfield Asset Management and its affiliates
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SDIL.

About the company

Summit Digital Infrastructure Limited (SDIL; formerly known as Reliance Jio Infratel Private Limited) was incorporated in January 2013 and is engaged in the business of operating and managing the tower assets which were transferred from Reliance Jio Infocomm Limited (RJIL). RIL held a 49% stake in SDIL and a 51% stake was held by Tower Infrastructure Trust. In July 2019, Reliance Industrial Investments and Holdings Limited (RIIHL; sponsor of the InvIT and a wholly-owned subsidiary of RIL) entered into an agreement with Brookfield Asset Management Inc (Brookfield) for an investment of Rs. 25,215 crore in the units of the InvIT. In August 2020, the InvIT received approval from the Department of Telecommunications (DoT) for investment by Brookfield. Post completion of the transaction (with Brookfield), the InvIT acquired the remaining 49% stake in SDIL from RIL and now SDIL is wholly-owned by the InvIT, with Brookfield being the sponsor of the InvIT.

Key financial indicators (audited)

DAL Consolidated	FY2021	FY2022
Operating income (Rs. crore)*	4933	5834
PAT (Rs. crore)	-2338	-3306
OPBDIT/OI (%)	62.1%	60%
PAT/OI (%)	-47.4%	-56.7%
Total outside liabilities/Tangible net worth (times)	-9.2	-6.2
Total debt/OPBDIT (times) #	14.1	13.4
Interest coverage (times)\$	0.9	0.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

* Does not include energy revenues, as these are largely pass through

Total debt includes Rs. 25,000 crore of unsecured loan infused by InvIT in SDIL, which is subordinated to the external debt

\$ - Including interest on the unsecured subordinated debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					November 10, 2022	November 12, 2021	-	-
1	NCD	Long-term	1000.00	1000.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE507T07088	NCD	22-Nov-2021	7.62%	22-Nov-2030	1000.00	[ICRA]AAA (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis- Not applicable

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