ICRA

November 01, 2023

Summit Digitel Infrastructure Limited: Rating reaffirmed

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-I*

Rationale

The reaffirmation of the rating takes into account the strong business linkages between Summit Digitel 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), effective August 31, 2020, and the fixed price nature of the operations and maintenance (O&M) and project execution contracts. The MSA assures a certain level of revenue for SDIL over the next 30 years till 2050 with RJIL assuring anchor tenancy on 174,451 towers to be set up by SDIL. As on August 31, 2023, SDIL had achieved a target of 1,74,451 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 growing data requirements, would enable SDIL to attract tenancies from other telecom operators, providing a fillip to its cash generation.

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

ICRA notes that the company plans to expand its portfolio by adding more towers in the near-to-medium term. SDIL's external debt was around ~ Rs. 29,448 crore at the end of March 31, 2023, and the same is capped at Rs. 30,008 crore at present. Moreover, the company is initiating talks with its bondholders and lenders to increase the debt cap in view of its plans to add more towers to its portfolio. The Company has received approval from the bond holders to increase the present debt cap for adding further towers to its portfolio.

The company has been refinancing its debt obligations to achieve a favourable maturity profile. SDIL's parent, DIT, is backed by Brookfield Group and has two assets under its fold with SDIL being the material asset. At present, the InvIT meets the regulatory requirement of leveraging, as mandated under the regulations. While the loan-to-value ratio is expected to increase with the addition of towers, the same is expected to remain within the regulatory requirements, going forward. 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 sides.

Key rating drivers and their description

Credit strengths

Strong business profile and established linkages 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 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 2050). 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. While RJIL is the anchor tenant, SDIL can still offer its towers to other telecom operators as additional tenants. 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. SDIL is planning to expand its portfolio beyond 174,451 towers and the MSA terms are likely to remain the same as the earlier towers with revenue visibility till 2050.

Exceptional financial flexibility and strong parentage - SDIL benefits from its strong parent, Data Infrastructure Trust, which is backed by Brookfield Group as its sponsor, translating into exceptional financial flexibility.

Relatively young tower portfolio with 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 (~65%) are fiberised, making them 5G-ready. A large proportion of the towers are ground-based towers (GBT), which can be shared with more than one tenant. The balance is in the form of rooftop towers (RTT), wherein some are shareable, and the remaining are ground-based masts (GBM) and cell on wheels (COW), which are not designed to have more than one tenant. 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 crore, including Rs. 215 crore as equity, while the remaining was put in as subordinated debt which was utilised to repay a certain portion of the long-term debt and other financial liabilities. The loan is subordinate 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 cash flows.

Credit challenges

Tenancy ratio around 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 tenancy ratio is sufficient to service the external debt comfortably. With ~65% of the towers being fiberised and allowed to have more than one tenant, SDIL should also attract other telecom operators that would further improve the cash generation.

Capital-intensive business - The telecom tower industry is capital-intensive as the players need to incur a 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 anchor tenancy is already built in SDIL's master service agreements, additional tenancies could take time.

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 as required under InVIT guidelines, 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 relatively 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 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
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 Group and its affiliates
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of SDIL

About the company

Summit Digitel 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)

	FY2022	FY2023
Operating income (Rs. crore)*	5,834	6,869
PAT (Rs. crore)	-3,306	-3,191
OPBDIT/OI (%)	60.0%	61.3%
PAT/OI (%)	-56.7%	-46.5%
Total outside liabilities/Tangible net worth (times)	-6.2	-5.3
Total debt/OPBDIT (times)#	13.4	12.9
Interest coverage (times)$	0.6	0.7

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 01, 2023	Nov 10, 2022	Nov 12, 2021	-
1	**NCD**	Long term	1000.00	1000.00	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-

Complexity level of the rated instruments

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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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 II: List of entities considered for consolidated analysis - Not applicable

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About ICRA Limited:

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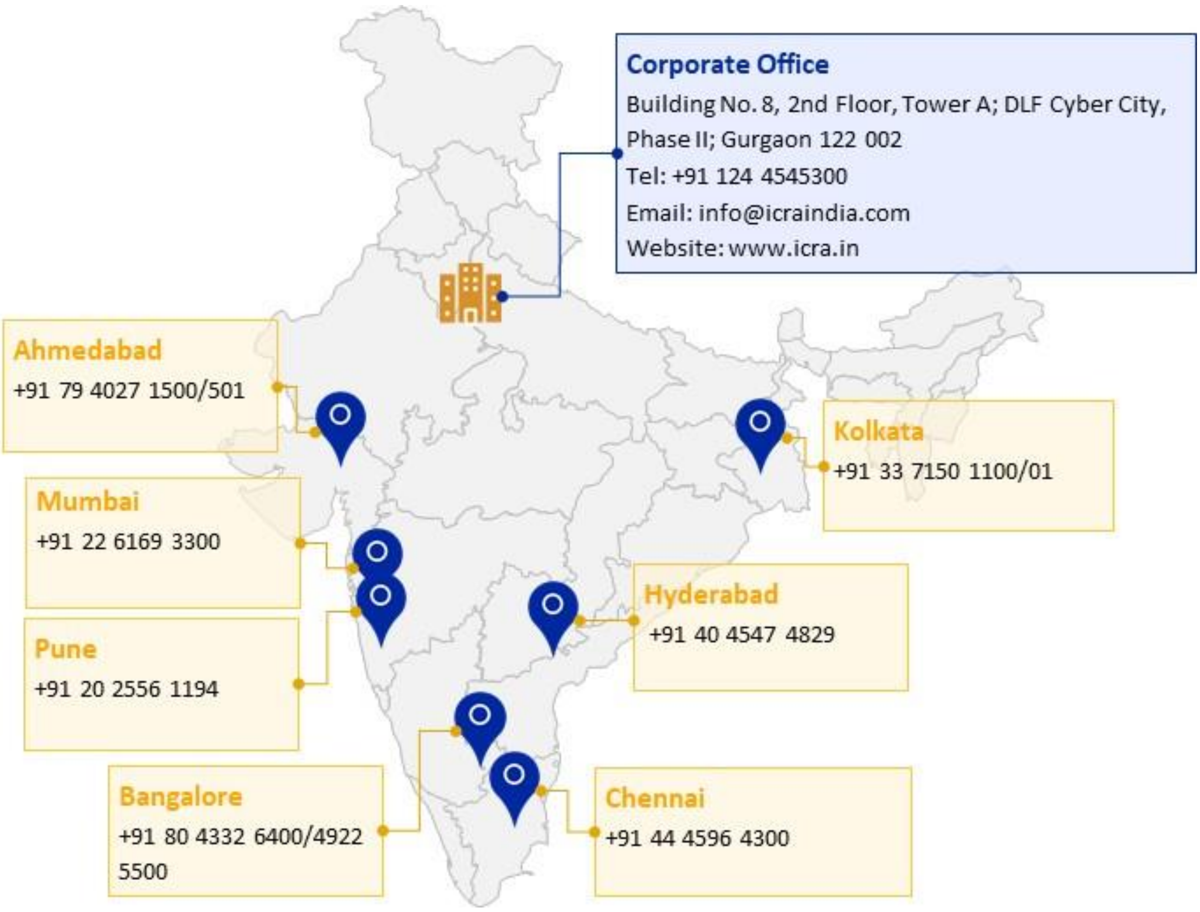

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