February 15, 2024

Summit Digitel Infrastructure Limited: Rating reaffirmed for NCD; [ICRA]A1+ assigned for bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	1000.00	1000.00	[ICRA]AAA (Stable); reaffirmed
Short-term – Fund based - Short term loan	0.0	500.00	[ICRA]A1+; assigned
Total	**1000.00**	**1500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings take 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 ratings factor 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 1,74,451 towers to be set up by SDIL. As on August 31, 2023, SDIL had achieved the target of 1,74,451 towers wherein RJIL is the anchor tenant. The company plans to expand its portfolio by adding more towers in the near to medium term. The proposed debt to be availed for this, coupled with an announced acquisition by Data Infrastructure Trust (DIT), is likely to moderate the debt/AUM for the Trust. 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. While SDIL has been able to attract new tenancies from other telecom operators, the pace of addition has slowed down in the last couple of quarters.

The ratings also factor in the ability of SDIL to service the external debt comfortably over the long term, 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 Group, ensures healthy refinancing capabilities for SDIL and is a rating comfort.

SDIL's external debt was ~Rs. 29,556 crore as on December 31, 2023. The company has received consents from bond holders for an increased debt cap and is also in final stages of obtaining approval from term lenders to the debt cap that will provide the flexibility to the company to add more 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 at present has two assets under its fold with SDIL being the material asset. DIT has also announced acquisition of a third asset. At present, the InvIT meets the regulatory requirement of leveraging as mandated under the regulations. While the loan-to-value is expected to increase with the addition in the tower base, the same is expected to remain within regulatory requirements going forward. However, any material leveraging at the InvIT level will remain a key monitorable.

The Stable outlook reflects ICRA's expectations that SDIL's cash generation will remain stable with robust agreements in place for both revenue and cost.

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 1,74,451 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 1,74,451 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, if 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 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 1,74,451 towers and the MSA terms are likely to remain same as earlier towers with the revenue visibility till 2051.

Exceptional financial flexibility and strong parentage – SDIL benefits from its strong parentage of Data Infrastructure Trust, which is backed by Brookfield Group 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 recently and thus, the average age of the portfolio is less than three years. Moreover, majority of these towers (more than 50%) are fiberised, making them 5G ready. A large proportion 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 some proportions 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 crore, including Rs. 215 crore as equity, while the remaining was put in as subordinated debt. This 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 cash flows.

Credit challenges

Tenancy ratio limits return metrics and cash generation - As per the MSA terms, RJIL will be the anchor tenant for 1,74,451 towers to be set up by SDIL, indicating a tenancy ratio of 1.0 times, which limits the upsides of cash generation and returns. The same, however, is sufficient to comfortably service the external debt. 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.

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 long tenure of the MSA provide comfort from a liquidity perspective. This, along with exceptional financial flexibility and a long-tenured debt, adds to the comfort.

Rating sensitivities

Positive factors – NA.

Negative factors – Deterioration in the credit profile of RJIL, or deterioration in credit profile of DIT, 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 Towers
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 the Brookfield Group and its affiliates
Consolidation/standalone	For arriving at the ratings, 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. It operates and manages the tower assets, which were transferred from Reliance Jio Info comm 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. At present, SDIL is wholly owned by the InVIT, with Brookfield being the sponsor of the InVIT.

Key financial indicators (audited)

SDIL	FY2022	FY2023
Operating income	5,834	6,869
PAT	-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

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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
					Feb 15, 2024	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)**	**[ICRA]AAA (Stable)**	**-**
2	**Fund based- Short Term Loan**	Short term	500.00	-	**[ICRA]A1+**	**-**	**-**	**-**	**-**

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Simple
Short - term – Fund based – Short-term loan	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)
NA	**Short-term – Fund based - Short-term loan**	NA	NA	NA	500.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vashisht
+91 12 4454 5322
prashant.vasisht@icraindia.com

Ankit Jain
+91 12 4454 5865
ankit.jain@icraindia.com

Saurabh Parikh
+91 22 6169 3300
saurabh.parikh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches