April 12, 2024

Summit Digitel Infrastructure Limited: Ratings reaffirmed; [ICRA]AAA (Stable) assigned for fresh NCD of Rs. 2,000.00 crore

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
Non-convertible debentures^	-	2,000.00	[ICRA]AAA (Stable); assigned
Fund-based – Short-term loan	500.00	500.00	[ICRA]A1+; reaffirmed
Total	**1,500.00**	**3,500.00**	

**Instrument details are provided in Annexure-I; ^ Yet to be placed*

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 being the anchor tenant for the 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. The company plans to expand its portfolio by adding more towers in the near to medium term, which is likely to moderate the debt/AUM for Data Infrastructure 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 the cash generation.

The ratings also factor in the ability of SDIL to service the external debt comfortably over the long run, while the improved tenancy ratio provides a boost 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. 29,547 crore at the end of March 31, 2024. The company has reached an agreement with its bondholders and is in advanced discussions with lenders to increase the debt cap in the view of its plans 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 Infrastructure Partners and currently has two assets under its fold with SDIL being the material asset, while DIT has also announced the 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, it 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 side.

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 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. 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 and the MSA terms are likely to remain the same, offering revenue visibility till 2051.

Exceptional financial flexibility and strong parentage – SDIL benefits from its strong parent, 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. 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 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 for 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 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 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 the anchor tenancy is already in-built in the MSA for SDIL, 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 upstreamed 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 the 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 deterioration in credit profile of DIT, 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 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 that 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. After 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 Consolidated	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; Amount in Rs. crore; 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 (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					Apr 12, 2024	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)	[ICRA]AAA (Stable)
2	NCD^	Long term	2000.00	-	[ICRA]AAA (Stable)	-	-	-	-
3	Fund-based – Short-term loan	Short term	500.00	-	[ICRA]A1+	[ICRA]A1+	-	-	-

^ - yet to be placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Simple
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)
-	**NCD***	-	-	-	2000.00	[ICRA]AAA(Stable)
NA	**Short term – Fund-based - Short-term loan**	NA	NA	NA	500.00	[ICRA]A1+

*Source: Company *- unplaced*

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

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

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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.

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