Jio Digital Fibre Private Limited

April 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	39,920 (reduced from 40,000)	**CARE AAA; Stable (Triple A; Outlook: Stable)**	Reaffirmed
Total Facilities	**39,920 (Rs. Thirty-nine thousand nine hundred and twenty crore only)**		
Non-Convertible Debenture issue	25,342	**CARE AAA; Stable (Triple A; Outlook: Stable)**	Reaffirmed
Total Instrument	**25,342 (Rs. Twenty-five thousand three hundred and forty-two crore only)**		

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the long-term bank facilities as well as non-convertible debenture (NCD) issuances of Jio Digital Fibre Private Limited (JDFPL) draw comfort from the low revenue risk owing to the presence of a Fibre Duct and Use Agreement (FUA) for a long period of 30 years with Reliance Jio Infocomm Limited (RJIL, rated 'CARE AAA; Stable/CARE A1+') as an anchor tenant, which provides stable annuity-like cash flows adequate for servicing of its debt obligations. The ratings are underpinned by the strong business linkages as well as the strategic importance of JDFPL's operations for RJIL, the strong competitive position of JDFPL on the back of its large capacity available to offer for use as well as the favourable long-term growth potential of the entity fueled by an increase in demand for fibre networks in India.

The above rating strengths are, however, partially offset by the highly capital-intensive nature of the fibre network business due to the significant amount of capital expenditure incurred for laying down the fibre network, thereby resulting in moderate leverage as well as susceptibility to volatile cash flows related to external (non-RJIL) tenancies.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade): Not Applicable

Negative Factors – Factors that could lead to negative rating action/downgrade):

- Any change in the strategic significance of the company to RJIL.
- Any material changes in the FUA with RJIL, adversely impacting the company's revenue.
- Deterioration in the credit risk profile of RJIL.

Detailed description of the key rating drivers

Key Rating Strengths

FUA with RJIL as an anchor tenant, assuring stable and annuity-like cash flows

JDFPL has executed an FUA with its anchor tenant, i.e., RJIL, for a tenure of 30 years, thus providing assured revenue visibility. As per the terms of the agreement, JDFPL will provide RJIL with the use of the contract fibre and contract ducts along with basic maintenance services. As per the FUA, RJIL has paid upfront fibre fees, which will be amortized over the life of the FUA. Additionally, RJIL also pays fixed monthly fibre fees and monthly maintenance fees for using the designated number of fibre pairs required by it. Any increase in the operating costs or right of way charges will also be borne by the anchor tenant, thereby ensuring stable profitability for JDFPL. RJIL intends to utilize around 60% of JDFPL's fibre capacity for its operations. The long-term nature of the agreement provides annuity-like cash flows to the company from RJIL, which has a strong credit risk profile. Until March 31, 2021, RJIL was the sole tenant of JDFPL and cash flows under the FUA with RJIL are expected to be adequate for servicing JDFPL's external debt repayment obligations. The envisaged additional tenancies (non-RJIL), going forward, are expected to provide further cash flow cushion to JDFPL.

Strong business linkages and strategic importance for RJIL

RJIL (a 66.48% subsidiary of Reliance Industries Limited (RIL)), which requires fibre infrastructure for its operations, is the anchor tenant for JDFPL. The development of fibre infrastructure is highly capital-intensive and time-consuming. Hence, it is economically prudent for RJIL to use these fibre assets of JDFPL, thereby establishing strong operational and business linkages between the two entities.

Large fibre footprint in India and high-quality asset base

JDFPL has an extensive fibre footprint throughout the country (having a presence in all the key geographies, covering all 22 telecom circles), across various categories such as long-distance fibre and intra-city fibre. JDFPL intends to construct an additional fibre network across India. The company has very high-quality infrastructure assets – of 23.29 million fibre pair kilometre (fpkm)

[1]Complete definitions of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

of National Long Distance (NLD), intra-city fibre, enterprise access, as well as Fibre to the Home(FTTH) as on December 31, 2021 and it intends to expand the total fibre network to 29.32 million fpkm, which is likely to have strong demand from various user categories such as ISPs, telecom operators, multi-service operators, large enterprise customers, among others. A significant proportion of these fibre assets are intra-city and underground, which results in greater usability, higher tariffs, and lower O&M expenses. The assets are very new, with an average age of less than three years, thereby assuring long life of the assets.

Long-term growth potential for fibre infrastructure business, driven by robust demand
India is currently the second-largest market for telecommunication services globally. A prime segment aligned with the growth of the telecom sector is the fibre industry. Growth for fast and improved networking and network services and an increase in broadband connections across the country are expected to be the major drivers of the demand for fibre infrastructure. In comparison to copper cables, Optical Fibre Cable (OFC) technology delivers much higher bandwidth, which has become extremely vital for supporting burgeoning data traffic. Furthermore, the rising demand for optical communication and sensing applications for different purposes, the pressing demand for optical fibre cables in the IT and telecom sectors, the increasing internet penetration and the surging adoption of FTTH connectivity are expected to drive the optical fibre industry growth.

Liquidity: Strong
JDFPL has stable annuity-like cash flows from RJIL due to the long-term FUA for a period of 30 years, which is envisaged to be adequate for servicing its external debt. JDFPL receives tariff payments on a monthly basis from RJIL. Moreover, the tenure of the agreement, which is more than the duration of the external debt as well as the long life of the assets, is envisaged to aid in refinancing the debt, if required.

Key Rating Weaknesses
Capital-intensive nature of business
The fibre infrastructure business is highly capital-intensive, as companies need to incur a significant amount of capital expenditure for laying fibre networks. This leads to high leverage in the company, inherent to an infrastructure asset. In the case of JDFPL, since RJIL is the anchor customer for both, existing as well as new fibre lengths, wherein RJIL will utilise around 60% of the fibre capacities, the revenues are assured to that extent. JDFPL is expected to incur an additional capex of around Rs.35,000 crore over FY22 and FY23, for which a loan of around Rs.12,914 crore has already come from the Digital Fibre Infrastructure Trust (InvIT) in FY22 and the company is in process of tying up facilities with external lenders for the balance amount.

Susceptible to volatility in revenue due to external tenants/customers
The telecom industry has consolidated into three to four players, which could limit the tenancies for JDFPL. Moreover, half of the telcos are financially stressed, although the new reforms introduced by the DoT could lead to improvement in the financial risk profile of the telcos. Furthermore, the telecom industry is highly regulated and competitive, which could affect the cash accruals and leverage profile of the telcos. For JDFPL, currently, RJIL is the sole tenant, but going forward, once it onboards other tenants, it could be exposed to counterparty risk.

Analytical Approach: Standalone; also, strong operational linkages with RJIL have been considered.

Applicable Criteria
Criteria on assigning 'outlook' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-financial sector
Rating Methodology – Infrastructure Sector Ratings (ISR)
Financial ratios: Non-Financial sector
Rating Methodology – Factoring linkages in Ratings

About the Company
JDFPL was incorporated in December 2018 to undertake the business of operating and managing the optic fibre cable assets, transferred to it from RJIL. JDFPL is 51% controlled by Digital Fibre Infrastructure Trust (DFIT), a SEBI-registered InvIT, and 48% of the stake in JDFPL is held by RIL. JDFPL has executed a FUA with its anchor tenant, i.e., RJIL, for a long tenure of 30 years, thus providing assured revenue visibility.
Reliance Industrial Investments & Holdings Ltd (RIIHL; a wholly-owned subsidiary of RIL) is the Sponsor of the Trust (InvIT) and holds 15% of the units issued by the Trust; 51% of the units are together held by the Public Investment Fund (PIF) and the Abu Dhabi Investment Authority (ADIA), whereas around 34% of the units are held by the RIL group companies, namely, Jamnagar Utilities and Power Private Limited (rated CARE AAA; Stable/ CARE A1+) and Sikka Ports and Terminals Limited (rated CARE AAA: Stable/ CARE A1+).

Brief Financials of JDFPL – Standalone (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
TOI	6140	7640	8345
PBILDT	5270	6605	7393
PAT	-5144	-5290	-3307
Overall gearing (times)	1.53	2.46	3.13
Interest coverage (times) *	0.84	1.14	NA

A: Audited; Prov.: Provisional; Not Available; Financials classified as per CARE Ratings Limited's standards.
**Excluding interest cost on subordinated loan infused by InvIT.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Facilities/Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	FY33	38570.00	CARE AAA; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	1350.00	CARE AAA; Stable
Debentures-Non-Convertible Debentures	INE07Z407014 INE07Z407022 INE07Z407030	December 23, 2020 December 24, 2020 December 24, 2020	SBI 1 Year MCLR Linked + 0.60%	December 23, 2032 December 24, 2032 December 24, 2032	25342.00	CARE AAA; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	38570.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Mar-21) 2)CARE AAA; Stable (26-Jun-20)	1)CARE AAA; Stable (08-Apr-19)	1)Provisional CARE AAA; Stable (05-Mar-19)
2	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (27-Mar-21) 2)CARE A1+ (26-Jun-20)	1)CARE A1+ (20-May-19)	-
3	Debentures-Non-Convertible Debentures	LT	25342.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Mar-21) 2)CARE AAA; Stable (14-Dec-20)	-	-
4	Non-fund-based - LT-Bank Guarantee	LT	1350.00	CARE AAA; Stable				

Annexure-3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Debentures-Non-Convertible Debentures	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple
3	Term Loan-Long Term	Simple

Annexure-4: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact No.: +91-22-6754 3596
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Hardik Shah
Contact no.: +91-79-4026 5620
Email ID: hardik.shah@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-22-6754 3404
Email ID: saikat.roy@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**