

Data Infrastructure Trust

December 02, 2022

Rating

Type of Rating	Rating ¹	Rating Action
Issuer rating*	CARE AAA (Is); Stable [Triple A (Issuer Rating); Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

*The Issuer rating is subject to the net debt of the trust not exceeding 70% of the enterprise value (EV) of its assets on a consolidated basis.

Detailed rationale and key rating drivers

The Issuer rating assigned to Data Infrastructure Trust (Data InvIT; an infrastructure investment trust [InvIT]) continues to draw comfort from its material investment in Summit Digital Infrastructure Limited (SDIL; rated CARE AAA; Stable), which has a strong credit profile due to the presence of a non-cancellable master service agreement (MSA) for a long period of 30 years with Reliance Jio Infocomm Limited (RJIL; rated 'CARE AAA; Stable/CARE A1+') as an anchor tenant, providing stable annuity-like cash flows, adequate for servicing of its external debt. The external debt in SDIL is not expected to exceed ₹30,008 crore.

The rating is further underpinned by the strong business linkages as well as the strategic importance of SDIL's operations for RJIL, the strong competitive position of SDIL on the back of its large and geographically well-distributed telecom tower portfolio, as well as the favourable long-term growth potential of the entity fuelled by an increase in demand for telecom infrastructure.

The rating also takes cognisance of the second investment made by Data InvIT towards the end of FY22 by the acquisition of Crest Digital Private Limited (CDPL; erstwhile known as Space Teleinfra Private Limited). The rating of Data InvIT also continues to draw comfort from the outstanding net debt/enterprise value (EV) of the trust on a consolidated basis, being at 41% as on March 31, 2022, which can go up to a maximum of 70% as per the Securities and Exchange Board of India (SEBI) regulations.

The above rating strengths are partially offset by the nature of the telecom tower business in SDIL, which is highly capital-intensive due to a significant amount of capital expenditure (capex) incurred for setting up the tower network, thereby resulting in moderate leverage, as well as the 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 importance of SDIL to RJIL.
- Any material changes in the MSA with RJIL, adversely impacting the revenues of SDIL.
- Deterioration in the credit risk profile of RJIL.
- External debt/PBILDT remaining above 6x on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

SDIL's MSA with RJIL, assuring stable and annuity-like cash flows: SDIL has signed a non-cancellable MSA with its anchor tenant, ie, RJIL for a long tenure of 30 years for leasing its telecom towers to RJIL, which protects it from renewal risk, and thus, provides strong revenue visibility. As per the MSA, RJIL will have to pay a tariff to SDIL for the tower usage, rent for the tower sites, and power and fuel charges for the equipment installed at the site. The rent as well as power and fuel charges will be treated as pass-through, ie, fully compensated by RJIL as they are incurred. The long-term nature of the agreement provides annuity-like cash flows to the company from RJIL, which has a strong credit risk profile. Up to March 31, 2021, RJIL was the sole tenant of SDIL and cash flows under the MSA with RJIL are expected to be adequate for servicing SDIL's external debt. By September 30, 2022, the company onboarded other tenants for 5,266 towers and another tenancy is expected to gradually

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

improve further. The envisaged additional tenancies (non-RJIL), going forward, are expected to provide a further cash flow cushion to SDIL.

Strong business linkages and strategic importance of SDIL for RJIL (anchor tenant): SDIL has a geographically well-distributed portfolio of telecom towers. The extensive and widespread portfolio of its towers, with more than 60% of the towers with a fiberized back-haul, leads to a significant competitive advantage for RJIL, and thus, ensures strong business linkages between the two entities. Currently, of the total tower requirement of RJIL, around 60% is being met through SDIL.

RJIL (the anchor tenant of SDIL) is the telecom arm of Reliance Industries Limited (RIL; rated 'CARE AAA; Stable/CARE A1+') and is the largest player (in terms of subscriber base) in the Indian telecom industry. RJIL has built a world-class all-IP data network with the latest 4G LTE technology, which can be easily upgraded to support even more data as technologies advance to 5G, 6G, and beyond, whereby tower assets of SDIL are of strategic importance to RJIL for its seamless operations.

The project execution risks related to the setting up of new towers are borne by the engineering, procurement and construction (EPC) contractor (which is also a RIL group company) and the towers are transferred to SDIL only post-completion at a fixed price. Furthermore, the operation and maintenance (O&M) of the towers of SDIL is also handled by the RIL group company, reemphasising the high importance of the services of SDIL for the operations of RJIL.

Large and widespread tower portfolio of SDIL: SDIL has a well-diversified tower portfolio with a presence across all 22 telecommunication circles in India, including the metro, A-category, B-category, and C-category telecommunication circles. SDIL had 154,372 operational towers as on September 30, 2022, and the company has plans to expand its total tower portfolio to 174,451 towers by end-FY23 (FY refers to the period from April to March). To partially fund the capital cost of this tower portfolio, Data InvIT has infused ₹25,000 crore of subordinated loans in SDIL during FY21. As on September 30, 2022, the company had an outstanding external debt of ₹23,376 crore, whereas it has envisaged availing a maximum external debt of ₹30,008 crore. More than 60% of the towers of SDIL are fiberized, ensuring higher capacity for increased data consumption at higher speeds. In addition to this, the towers are fairly new and have enough space to accommodate multiple tenancies. The extensive and widespread portfolio of the towers leads to a strong market position and gives a significant competitive advantage to the company.

Long-term growth potential for passive telecom infrastructure business: India is currently the second-largest market for telecommunication services globally. One prime segment aligned with the growth of the telecom sector is the tower industry. The strong focus on operational excellence, data explosion, the rollout of data services like 4G, and 5G, as well as the higher penetration in rural areas, are the main reasons behind the accelerating investments in India's telecom tower sector. The Indian Government's Digital India and Smart Cities initiatives are also fuelling demand for a robust tower infrastructure.

Despite several COVID-19 lockdowns, the telecom industry grew rapidly during FY21 and FY22. The demand for strong connectivity and wireless Internet has increased manifold. In March 2021 as well as July 2022, the spectrum auctions were concluded with good participation from leading telecom service providers (TSPs). As per industry estimates, with the rollout of 5G, the number of telecom towers will go up from the current 723,000 to over 1 million. With the rapid rollout of 5G services by TSPs, they will also require a greater number of fiberised towers to support the 5G technology. This will create demand for additional towers and room for growth for a company like SDIL, as more than 60% of its towers are fiberised. Going forward, with a sizeable and widespread portfolio of towers, SDIL is expected to garner more tenancies from other telcos in the near to medium term. Furthermore, with the rapid deployment of 5G technology across the country, the requirement of small cell sites is expected to rise for increasing the network coverage in institutional, commercial and residential buildings, translating into healthy demand prospects for players like CDPL.

Liquidity: Strong

Data InvIT, through its material revenue-generating special purpose vehicle (SPV), viz, SDIL, has stable annuity-like cash flows from RJIL due to the long-term MSA for a period of 30 years, which is envisaged to be adequate for its senior external debt servicing. SDIL receives tariff payments every month from RJIL, whereas servicing of its external debt is on a quarterly, half-yearly or yearly basis. Moreover, with the tenure of its MSA with RJIL being long vis-à-vis the tenure of its external debt, it results in a long tail period, which imparts strong financial flexibility to SDIL and, in turn, to Data InvIT. Data InvIT had a net debt/EV of 41% as on March 31, 2022, with comfortable debt service coverage indicators for its external debt, further supporting its liquidity. Furthermore, after servicing of its external debt, Data InvIT has a track record of six dividend distributions in FY22 (15 to date).

Key rating weaknesses

Capital-intensive nature of business, leading to moderate leverage: The passive telecom infrastructure business is highly capital-intensive, as companies need to incur a significant amount of capex for setting up towers or adding an adequate number

of sites to improve the network coverage in denser areas. This increases the leverage levels of the company for the medium term. The revenues are dependent on the new as well as additional tenancies. However, in the case of SDIL, since RJIL is the anchor tenant, the revenues are assured to the extent of 174,451 towers under the extant MSA. Moreover, by end-FY23, SDIL is expected to complete its capex cycle for the additional towers and is not expected to incur a significant amount of capex in the medium term. By end-FY23, the external debt/PBILDT is envisaged to exceed 6x, which is subsequently expected to gradually improve, going forward.

Susceptibility to volatility in cash flows due to onboarding other tenants: The telecom industry has consolidated into three to four players, which limits the tenancies for the material asset, ie, SDIL. Furthermore, the telecom industry is highly regulated and competitive, which can affect the cash accruals and leverage profiles of the telecom companies. Up to end-FY22, RJIL was the primary tenant of SDIL, however, as SDIL has started on-boarding other tenants, it exposes SDIL to counterparty risks in terms of delays in payments by some of these other tenants, which can impact its cash flows.

Analytical approach: Consolidated

For arriving at the Issuer rating of Data InvIT, CARE Ratings Limited (CARE Ratings) has considered a consolidated analytical view of Data InvIT and its underlying SPVs, viz, SDIL and CDPL. Furthermore, the strong operational linkages of SDIL with RJIL have been considered. The operations of RJIL are highly dependent on the tower assets of SDIL to ensure continuous service and network coverage, which is also reflected in the long-term MSA between SDIL and RJIL.

Applicable criteria

[Criteria on assigning 'outlook' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Criteria on Issuer Rating](#)

[Liquidity Analysis of Non-financial sector](#)

[Rating Methodology – Infrastructure Sector Ratings \(ISR\)](#)

[Rating Methodology – Infrastructure Investment Trusts \(InvITs\)](#)

[Rating Methodology – Consolidation](#)

[Financial ratios: Non-Financial sector](#)

About the company

Data InvIT, formerly known as Tower Infrastructure Trust (Trust), was originally incorporated by Reliance Industrial Investments and Holdings Limited (RIIHL; a wholly-owned subsidiary of RIL) on January 31, 2019, as a Trust under the provisions of the Indian Trusts Act, 1882. The Trust was registered as an InvIT with SEBI on March 19, 2019. In August 2020, upon receipt of approval from the Department of Telecommunications (DoT), BIF IV Jarvis India Pte Ltd became the sponsor to the InvIT by subscribing to 89.79% of the units of the InvIT. Post this, the InvIT acquired a 100% equity stake in SDIL. The units of the InvIT got listed on the Bombay Stock Exchange (BSE) w.e.f. September 2020. In October 2021, the name of the Trust was changed from Tower Infrastructure Trust to Data Infrastructure Trust. The trustee of the trust is Axis Trustee Services Limited. Brookfield India Infrastructure Manager Private Limited (BIIMPL) is the investment manager of the trust. SDIL is Data InvIT's first investment and is engaged in the business of operating and managing the tower assets, which have been transferred to it from RJIL. In March 2022, Data InvIT acquired CDPL, a leading indoor coverage solutions provider in India, for a consideration of around ₹900 crore. The same was funded by way of issuance of additional units on a rights basis and preferential basis.

Financial performance

(₹ crore)

Brief Consolidated Financials of Data InvIT	FY21 (A)	FY22 (A)	H1FY23 (Prov)
Total operating income (TOI)	8,260	9,819	5,770
PBILDT	3,050	3,490	2,095
PAT/(net loss)	(983)	548	218
Overall gearing (times)	0.91	1.14	1.29
PBILDT Interest coverage (times)	1.47	2.17	1.87

A: Audited; Prov: Provisional.

Classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments: Not applicable

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer rating-Issuer ratings	-	-	-	0.00	CARE AAA (Is); Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Issuer rating-Issuer ratings	Issuer rat	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (05-Jan-22)	-	-

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

Sr. No.	Name of instrument	Complexity level
1.	Issuer rating – Issuer ratings	Simple

Annexure-4: List of entities consolidated in Data InvIT as on March 31, 2022

Name of Companies/Entities	Percentage of holding (%)
Summit Digital Infrastructure Limited	100%
Crest Digital Private Limited	100%

Annexure-5: Bank lender details for this company

Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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