Digital Fibre Infrastructure Trust

March 20, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term facilities	33,131	CARE AAA; Stable	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the long-term facilities of Digital Fibre Infrastructure Trust (DFIT; an infrastructure investment trust [InvIT]) derives comfort from its sole special purpose vehicle (SPV) i.e. Jio Digital Fibre Private Limited (JDFPL; rated CARE AAA; Stable); which has a strong credit profile due to 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 further 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 large fibre footprint and high-quality asset base along with the favourable long-term growth potential fuelled by growing demand for fibre networks in India.

The rating also draw comfort from the DFIT's outstanding net debt/enterprise value (EV) on a consolidated basis, at 51% 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, 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: Factors likely to lead to rating actions

Positive factors: Not Applicable

Negative factors:

- Any change in the strategic importance of JDFPL to RJIL
- Any material changes in the FUA with RJIL adversely impacting the revenue of JDFPL
- Deterioration in the credit risk profile of RJIL
- Consolidated net debt of DFIT exceeding 70% of the value of its assets

Analytical approach: Consolidated

For arriving at the rating of DFIT, CARE Ratings Limited (CARE Ratings) has considered a consolidated analytical view of DFIT and its sole SPV, i.e., JDFPL. Furthermore, the strong operational linkages of JDFPL with RJIL have also been considered.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the fibre assets of JDFPL shall continue to remain strategically important for operations of RJIL and its long-term FUA with RJIL shall result in steady annuity-like cash flows leading to sustained strong credit profile.

Key strengths

JDFPL's 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 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. The long-term nature of the agreement provides annuity-like cash flows to the company from RJIL, which has a strong credit risk profile. Cash flows under the FUA with RJIL are expected to be adequate for servicing of JDFPL's senior debt repayment obligations. Furthermore, JDFPL added two new tenants and registered revenue from these contracts in Q3FY23. JDFPL's envisaged additional tenancies (non-RJIL), going forward, are expected to provide further cash flow cushion to JDFPL.

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

Strong business linkages and strategic importance for RJIL

RJIL [a 66.43% subsidiary of Reliance Industries Limited (RIL) through Jio Platforms Limited], 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 the 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. The company has very high-quality infrastructure assets of 26.58 million fibre pair kilometre (FPKM) of National Long Distance (NLD), intra-city fibre, enterprise access, as well as Fibre to the Home (FTTH) as on December 31, 2022 and it intends to expand the total fibre network to 29.32 million FPKM, which is near completion and likely to have strong demand from various user categories such as telecom and internet service providers, multi-service operators, data centers, and 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 have an average age of around four years, thereby assuring long residual 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. The demand for optical fibre network is linked with telecom and broadband market and will be driven by fibre deployment for connecting homes and businesses as well as base transceiver station (BTS) fiberisation to support mobile traffic growth along with rising demand for optical communication for different purposes. RJIL, the anchor tenant, has consolidated its domestic market leadership position with ~43% market share in the telecom and broadband business. Consequently, the healthy growth prospects for the domestic telecom industry along with RJIL's dominant market position augment well for the prospects of JDFPL and DFIT.

Liquidity: Strong

The consolidated debt profile of DFIT comprised of senior debt [bank term loans of ₹48,202 crore, non-convertible debentures of ₹25,342 crore (subscribed by RIL) in JDFPL] and unsecured loans primarily from RIL group entities of ₹33,131 crore in DFIT as on March 31, 2022. 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 of its senior debt i.e., bank term loans and non-convertible debentures. JDFPL receives tariff payments on monthly basis from RJIL, whereas servicing of its senior debt, is on a quarterly basis. Servicing of the unsecured loans in DFIT, from the excess cash flows received from JDFPL post servicing of its senior debt, is expected to be comfortable.
Furthermore, the tenure of the FUA which is more than the duration of the senior debt as well as the long life of the assets, envisaged to aid in refinancing of debt, if required. Furthermore, DFIT had consolidated cash & liquid investments of Rs.2,684 crore as on March 31, 2022, post dividend pay-out to unitholders of ₹1,567 crore in FY22.

Key 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 of the DFIT marked by an overall gearing of 1.90 times as on March 31, 2022, 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 assuring the revenues to that extent.
JDFPL has an ongoing project to expand its total fibre network to 29.32 million FPKM with an estimated balance capex of around ₹16,800 crore to be largely funded by bank loans. Its planned capex was earlier envisaged to be completed by end-FY23 which has been delayed and now is expected to be completed shortly during FY24.

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 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. Consequently, JDFPL's envisaged additional tenancies could expose it to counterparty risk.

Applicable criteria

Rating Outlook and Credit Watch
Policy on Default Recognition
Consolidation

[Factoring Linkages Parent Sub JV Group](#)
[Financial Ratios – Non-financial Sector](#)
[Liquidity Analysis of Non-financial Sector Entities](#)
[Infrastructure Investment Trusts (InvITs)](#)
[Infrastructure Sector Ratings](#)

About the trust

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Telecom - Infrastructure

Digital Fibre Infrastructure Trust (DFIT) was established by Reliance Industrial Investments and Holdings Limited (RIIHL – Sponsor; a wholly owned subsidiary of Reliance Industries Limited) on January 31, 2019 as a contributory irrevocable trust pursuant to an Indenture of Trust executed between the Sponsor and Axis Trustee Services Limited. DFIT was registered as an infrastructure investment trust (InvIT) on March 20, 2019 under the SEBI Infrastructure Investment Trusts Regulations, 2014.
RIIHL 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 promoter 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+).
DFIT holds 51% of the equity share capital in its sole SPV i.e. Jio Digital Fibre Private Limited (JDFPL), and 48% of the stake in JDFPL is held by RIL. JDFPL was incorporated in December 2018 to undertake the business of operating, and managing the optical fibre cable assets, transferred to it from RJIL. JDFPL has executed a FUA with its anchor tenant, i.e., RJIL, for a long tenure of 30 years, thus providing assured revenue visibility.

Brief Financials of DFIT – Consolidated (₹ crore)	FY21 (A)	FY22 (A)
Total operating income	7,640	11,713
PBILDT	6,642	10,473
PAT	-4,815	-2,582
Overall gearing (times)	1.56	1.90
Interest coverage (times) *	1.14	2.08

A: Audited; ***Excluding interest on unsecured loan.

Note: the above results are latest financial results available.

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/facilities: Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-6

Annexure-1: Details of instruments/facilities

Name of the Instrument	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt	28-09-2050	33,131	CARE AAA; 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	Debt	LT	33,131	CARE AAA; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debt	Simple

Annexure-5: List of entities consolidated in DFIT as on March 31, 2022

Sr. No.	Name of the Companies/Entities	Percentage of Holding
1	Jio Digital Fibre Private Limited	51%

Annexure-6: Lender details: 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.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Name: Padmanabh Bhagavath Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3407 E-mail: ps.bhagavath@careedge.in Name: Hardik Shah Director **CARE Ratings Limited** Phone: +91-79-4026 5620 E-mail: hardik.shah@careedge.in Name: Surabhi Nahar Assistant Director **CARE Ratings Limited** Phone: +91-22-6754 3437 E-mail: surabhi.nahar@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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