Data Infrastructure Trust

January 15, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	0.00	CARE AAA (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the issuer rating assigned to Data Infrastructure Trust (Data InvIT; an infrastructure investment trust [InvIT]) on 'Rating watch with Developing Implications'. The rating action follows the recent announcement by Data InvIT for entering into a binding agreement for acquisition of 100% equity of ATC Telecom Infrastructure Pvt. Ltd. (ATC) for an enterprise value of ₹16,500 crore subject to increase and pre-closing terms. ATC has a tower portfolio of approximately 78,000 sites across India. The acquisition will be subject to unitholders and other regulatory approvals and expected to be completed in around six months' time. Currently, the issuer is still under discussion in terms of structuring and funding pattern for the above transaction. CARE Ratings would continue to monitor the developments in this regard and will take a view on the rating of Data InvIT once transaction details and funding pattern for this acquisition is known and impact of this acquisition on the business and financial risk profile of Data InvIT is clear.

The Issuer rating assigned to Data InvIT continues to draw comfort from its material investment in Summit Digitel 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, which provides stable annuity-like cash flows. 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 quality telecom tower portfolio, along with the expected growth in its tenancy ratio on the back of favourable long-term growth potential for the telecom infrastructure business in India. The rating of Data InvIT also continues to draw comfort from its strong liquidity and consolidated net debt/enterprise value of 46% as on September 30, 2023, 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 capital-intensive nature of the telecom tower business due to significant amount of capital expenditure incurred for setting up the tower network, thereby resulting in moderate leverage, SDIL's debt-funded capex plan, as well as the 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

- Deterioration in the credit risk profile of RJIL.
- Any change in the strategic importance of SDIL to RJIL.
- Any material changes in the MSA with RJIL, adversely impacting SDIL's revenues.
- External Debt/PBILDT remaining above 7 times on a sustained basis.

Analytical approach: Consolidated

For arriving at the Issuer rating of Data InvIT, CARE Ratings has considered a consolidated analytical view of Data InvIT and its underlying special purpose vehicles (SPVs), viz, SDIL and Crest Digital Private Limited (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.

The list of entities consolidated in Data InvIT are placed at Annexure-6.

Detailed description of the key rating drivers:

Key strengths

Long-term MSA with RJIL as an anchor tenant, assuring stable and annuity-like cash flows

SDIL had signed a non-cancellable MSA with its anchor tenant, i.e., RJIL, for a long tenure of 30 years from September 1, 2020, for leasing of 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 tariff to SDIL for the tower usage. The rent for the tower sites and power expenses will be treated as pass-through, i.e., fully compensated by RJIL. 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. Later, SDIL has executed 10 years MSAs with other telecom service providers (TSPs) in India, namely, Bharti Airtel Limited, Bharat Sanchar

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

Nigam Limited, and Vodafone Idea Limited. As on September 30, 2023, the company has onboarded other TSPs for 10,259 towers (5,266 towers as on September 30, 2022) and external tenancy is expected to gradually improve going forward. Envisaged additional tenancies (non-RJIL) going forward are expected to provide further cash flow cushion to SDIL.

Strong business linkages and strategic importance of SDIL for RJIL (anchor tenant):
RJIL (a 66.43% subsidiary of Reliance Industries Limited [RIL] through Jio Platforms Limited), which requires tower infrastructure for its operations, is the anchor tenant for SDIL. RJIL is the telecom arm of RIL (rated 'CARE AAA; Stable/CARE A1+') and is the largest player (in terms of subscriber base) in the Indian telecom industry.
SDIL has a geographically well-distributed portfolio of telecom towers, with around 70% of the towers with a fiberised back-haul, which leads to a significant competitive advantage for RJIL, and thus, results in strong business linkages between the two entities and the strategic importance of tower assets of SDIL to RJIL for its seamless operations.
The project execution risks related to the setting up of new towers is borne by the engineering, procurement, and construction (EPC) contractor, which is also a RIL group company, and the towers are transferred to SDIL post-completion at a fixed price. Furthermore, the operation and maintenance (O&M) of SDIL's towers is also handled by the RIL group company, underlining the high importance of the services of SDIL for the seamless operations of RJIL.

Large and widespread tower portfolio, leading to strong competitive position
SDIL has a well-diversified tower portfolio with presence across all 22 telecommunication circles in India, including the metro, A-category, B-category, and C-category telecommunication circles. SDIL had 174,451 operational towers as on September 30, 2023 (154,372 operational towers as on September 30, 2022), making it the second-largest tower platform in India. SDIL's fairly young tower portfolio, with an average age of less than five years, is strategically located with minimal coverage overlap with competitors and has enough space to accommodate multiple tenancies, whereby around 89% of its tower portfolio has a tenancy potential of two to four tenants. Furthermore, around 70% of the tower portfolio is fiberized, ensuring higher capacity for increased data consumption at higher speeds, which is essential for providing 5G services. Thus, the large and widespread portfolio of quality towers leads to a strong market position and gives a significant competitive advantage to the company.
To partially fund the capital cost of this tower portfolio, Data InvIT had infused ₹25,000 crore of subordinated loans in SDIL during FY21, whereas SDIL had an outstanding external debt of ₹29,822 crore as on September 30, 2023, against the company's maximum external debt cap of ₹30,008 crore. However, going forward, the company has a plan to expand its total tower portfolio to 199,451 towers by end-FY25, entailing a capex of around ₹9,500 crore, along with a capex for shared tenancies, which is expected to be largely funded by external debt. However, the anchor tenancy of RJIL for all 174,451 towers and the shared tenancy for 10,259 towers as on September 30, 2023, along with the expected improvement in the tenancy ratio, is expected to result in strong cash flows, which is expected to be adequate for the servicing of SDIL's envisaged external debt.

Long-term growth potential for telecom tower business
India is the second-largest telecommunications market in the world, with consistent growth in the subscriber base, which stood at 1,179 million as on August 31, 2023. During FY23, the government's auction of the 5G spectrum led to the rapid deployment of 5G services by the industry's leading players with a plan to provide pan-India coverage by FY24-end, whereby strong growth in the 5G subscriber base is expected in the medium term. The expected growth in 5G penetration shall lead to the higher demand and densification of fiberised towers, which support 5G technology. 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. Overall, the healthy growth prospects for the domestic telecom industry, the anchor tenant, i.e., RJIL's leadership position with around 39% market share in the telecom industry as on August 31, 2023, along with strong prospects for shared tenancies amid the rapid 5G rollout augur well for the growth prospects of SDIL.
Furthermore, with the rapid deployment of 5G technology, the requirement of small cell sites is expected to increase to improve the network coverage in institutional, commercial, and residential buildings, translating into healthy demand prospects for players like CDPL.

Liquidity: Strong
Data InvIT had consolidated external debt of ₹30,817 crore (debt of ₹29,792 crore at SDIL level, ₹141 crore at CDPL level and ₹885 crore at Data InvIT standalone level) and lease liabilities of ₹134 crore, against enterprise value of ₹64,054 crore, resulting in healthy consolidated net debt/enterprise value of 46% as on September 30, 2023.
Data InvIT, through its material revenue-generating asset, SDIL, has stable annuity-like cash flows from RJIL due to the long-term MSA for a period of 30 years. Furthermore, addition of other tenants with a MSA of 10 years provides additional cash flow cushion. These cash flows are expected to be adequate for the servicing of Data InvIT's consolidated debt, whereby tariff payments from TSPs are received on a monthly basis and servicing of its debt is on a quarterly/half-yearly/yearly basis. Moreover, the tenure of MSA with RJIL being long vis-à-vis the tenor of its debt as well as the long residual life of the assets imparts strong

financial flexibility to SDIL, and in turn, to Data InvIT and aids in refinancing the debt at favourable terms, if required. Moreover, the parentage of a strong group, i.e., the Brookfield group, ensures financial flexibility to fund the capex requirements as well.

Key weaknesses

Capital-intensive nature of business, leading to moderate leverage

The telecom tower infrastructure business is capital-intensive, as companies need to incur a significant amount of capital expenditure for setting up towers, which increases the leverage levels of SDIL and Data InvIT for the medium term. Data InvIT's consolidated debt/PBILDT was at 6.65x on September 30, 2023. Also, with a largely debt-funded capex plan for the addition of around 25,000 towers by FY25-end, its leverage is expected to increase. However, since RJIL is the anchor tenant, the revenues are assured to the extent of 174,451 towers under the extant MSA. Furthermore, the existing MSA with RJIL will be expanded to cover the additional 25,000 towers, which are expected to be added to SDIL's portfolio. Also, SDIL's MSAs of 10 years with other TSPs for 10,259 sharer tenancies as on September 30, 2023, provides additional revenue streams. Consequently, although Data InvIT's consolidated debt/PBILDT is envisaged to remain above 6x during FY24, it is subsequently expected to gradually improve with expected growth in the tenancy ratio.

Susceptibility to volatility in cash flows due to on-boarding of other tenants

The domestic telecom industry is highly regulated and competitive, which can affect the cash accruals and leverage profile of the telecom companies. Up to FY22, RJIL, which has a strong credit profile, was the primary tenant of SDIL, however, as SDIL has started on-boarding other tenants, which exposes SDIL to counterparty risks in terms of delay in payments by some of these other tenants, can impact its cash flows.

Applicable criteria

Rating Outlook and Credit Watch
Policy on Default Recognition
Issuer Rating
Consolidation
Infrastructure Investment Trusts (InvITs)
Infrastructure Sector Ratings
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial Sector Entities

About the trust and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Telecommunication	Telecommunication	Telecom - Services	Telecom - Infrastructure

Data InvIT, formerly known as Tower Infrastructure 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 (75% holding as on September 30, 2023). 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. Axis Trustee Services Limited is the trustee and Brookfield India Infrastructure Manager Private Limited is the investment manager of the Data InvIT. 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.

(₹ crore)

Brief Financials of DIT (Consolidated)	FY22 (A)	FY23 (A)	H1FY24 (Prov.)
Total operating income (TOI)	9,786	11,100	6,017
PBILDT	3,600	4,288	2,326
PAT	547	797	532
Overall gearing (times)	1.14	1.75	2.07
Interest coverage (times)	2.23	2.06	1.88

A: Audited; Prov.: Provisional; Classified as per CARE Ratings Limited's standards.
Note: The above results are the 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: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer rating-Issuer ratings	-	-	-	-	0.00	CARE AAA (RWD)

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 2023-2024	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
1	Issuer rating-Issuer ratings	Issuer rating	0.00	CARE AAA (RWD)	1)CARE AAA; Stable (14-Dec-23)	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (02-Dec-22)	1)CARE AAA (Is); Stable (05-Jan-22)	-

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	Issuer rating	Simple

Annexure-5: Lender details: Not applicable

Annexure-6: List of entities consolidated in Data InvIT as on September 30, 2023

Name of Company/Entity	Percentage of Holding (%)
Summit Digitel Infrastructure Limited	100%
Crest Digital Private Limited	100%
Roam Digitel Infrastructure Private Limited (RDIPL)#	100%
Crest Virtual Network Private Limited (CVNPL)#	100%

#RDIPL and CVNPL are currently non-operational.

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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About us:

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