Digital Fibre Infrastructure Trust

April 5, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	-	CARE AAA; Stable	Reaffirmed
Long-term facilities	33,131	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The issuer rating and rating assigned to long-term facilities of Digital Fibre Infrastructure Trust (DFIT; an infrastructure investment trust [InvIT]) derives comfort from its sole special purpose vehicle (SPV), Jio Digital Fibre Private Limited (JDFPL; rated 'CARE AAA; Stable'); which has a strong credit profile due to a fibre duct 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 cashflows adequate for servicing of its debt obligations. Ratings are further underpinned by strong business linkages and 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 with favourable long-term growth potential fuelled by growing demand for fibre networks in India.

Ratings also draw comfort from DFIT's outstanding net debt/enterprise value (EV) on a consolidated basis, at 53% as on March 31, 2023, which can go up to a maximum of 70% as per the Securities and Exchange Board of India (SEBI) regulations.

However, above rating strengths are partially offset by the highly capital-intensive nature of the fibre network business due to the significant capital expenditure incurred for laying down the fibre network, resulting in moderate leverage and susceptibility to volatile cashflows 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 cash flows 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 DFIT's rating, 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. List of entities consolidated is mentioned in annexure 6.

Outlook: Stable

CARE Ratings believes that the fibre assets of JDFPL will remain strategically important for RJIL's operations and its long-term FUA with RJIL will result in steady annuity-like cashflows, leading to a sustained strong credit profile.

Detailed description of the key rating drivers:

Key strengths

JDFPL's FUA with RJIL as an anchor tenant, assuring stable and annuity-like cashflows

JDFPL has executed an FUA with its anchor tenant, RJIL, for 30 years, providing assured revenue visibility. As per terms of the agreement, JDFPL will provide RJIL contract fibre and ducts with basic maintenance services. As per the FUA, RJIL has paid upfront fibre fees, which will be amortised 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. Any increase in operating costs or right of way (RoW) charges will also be borne by the anchor tenant, thus ensuring stable profitability for JDFPL. The long-term agreement provides annuity-like cashflows to the company from RJIL, which has a strong credit risk profile. Cashflows under the FUA with RJIL are expected to be adequate for servicing of JDFPL's senior debt repayment obligations. JDFPL's envisaged additional tenancies (non-RJIL), going forward, are expected to provide further cashflow cushion to JDFPL. However, fibre offtake from additional tenancies is expected to improve gradually and will be one of the monitorables.

[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 fibre assets of JDFPL, thus establishing strong 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 key geographies, covering all 22 telecom circles), across categories such as long-distance fibre and intra-city fibre. The company has high-quality infrastructure assets of 28.07 million fibre pair kilometre (FPKM) of national long distance (NLD), intra-city fibre, enterprise access, and fibre-to-the-home (FTTH) as on December 31, 2023, which are likely to have strong demand from user categories such as telecom and internet service providers, multi-service operators, data centres, large enterprise customers, among others. A significant proportion of these fibre assets are intra-city and underground, resulting in greater usability, higher tariffs, and lower operations and maintenance (O&M) expenses. Assets have an average age of about five years, thus assuring long residual life of 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 and base transceiver station (BTS) fiberisation to support mobile traffic growth with the rising demand for optical communication for different purposes. RJIL, the anchor tenant, has consolidated its domestic market leadership position with about 45% market share in the telecom and broadband business. Consequently, the healthy growth prospects for the domestic telecom and broadband industry and RJIL's dominant market position augment well for prospects of JDFPL and DFIT.

Liquidity: Strong
The consolidated debt profile of DFIT comprises senior debt [bank term loans of ₹80,217 crore (including external commercial borrowings), zero coupon deep-discounted non-convertible debentures of ₹1,719 crore in JDFPL] and unsecured loans primarily from RIL promoter group entities of ₹33,131 crore in DFIT as on December 31, 2023. JDFPL has stable annuity-like cashflows from RJIL due to the long-term FUA for 30 years, which are envisaged to be adequate for servicing of its senior debt i.e., bank term loans and non-convertible debentures. JDFPL receives tariff payments monthly from RJIL, whereas servicing of its senior debt is on a quarterly basis. Servicing of unsecured loans in DFIT from excess cashflows received from JDFPL post servicing of its senior debt is also expected to be comfortable.
Furthermore, the tenure of the FUA, which is more than the duration of the senior debt, and the long life of assets are envisaged to aid in refinancing of debt, if required.

Key weaknesses
Capital-intensive nature of business
The fibre infrastructure business is highly capital-intensive, as companies need to incur significant capital expenditure for laying fibre networks. This leads to high leverage of DFIT, marked by consolidated overall gearing of 2.11x as on March 31, 2023, inherent to an infrastructure asset. In the case of JDFPL, RJIL is the anchor customer for both, existing and new fibre lengths, assuring revenue to that extent.
JDFPL is currently planning to expand its fibre network, especially in the FTTH segment. Funding mix of this capex, offtake arrangement with RJIL for incremental fibre capacity and other tenancies will be key rating monitorable.

Susceptible to volatility in revenue due to external tenants
The telecom industry has consolidated into three to four players, which can limit tenancies for JDFPL. Furthermore, the telecom industry is also highly regulated and competitive, which can affect cash accruals and leverage profiles of telecom companies. Consequently, JDFPL's envisaged additional tenancies can expose it to counterparty risk.

Applicable criteria

Rating Outlook and Rating Watch
Definition of Default
Issuer Rating
Consolidation
Infrastructure Investment Trusts (InvITs)
Infrastructure Sector Ratings
Factoring Linkages Parent Sub JV Group
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

DFIT was established by Reliance Industrial Investments and Holdings Limited (RIIHL – sponsor) 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 InvIT on March 20, 2019, under the SEBI Infrastructure Investment Trusts Regulations, 2014.
RIIHL holds 15% of units issued by the Trust; 51% of units are together held by the Public Investment Fund (PIF) and the Abu Dhabi Investment Authority (ADIA), whereas about 34% of units are held by RIL promoter group companies – 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 has listed its units on the Bombay Stock Exchange (BSE) from March 31, 2023.
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 optical fibre cable assets, transferred to it from RJIL. JDFPL has executed a FUA with its anchor tenant, i.e., RJIL, for 30 years, thus providing assured revenue visibility.

Brief Financials of DFIT – Consolidated (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	11,713	15,496	12,538
PBILDT	10,473	14,004	11,243
PAT/(Net losses)	-2,582	-1,089	-771
Overall gearing (times)	1.90	2.11	NA
Interest coverage (times)*	2.08	2.45	NA

A: Audited; UA: Unaudited; NA: Not available. ***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-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debt	-	-	28-09-2050	33,131	CARE AAA; Stable
Issuer rating-Issuer ratings	-	-	-	-	CARE AAA; Stable

Annexure-2: Rating history for 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	Debt	LT	33,131	CARE AAA; Stable	-	1)CARE AAA; Stable (20-Mar-23)	-	-
2	Issuer rating-Issuer ratings	LT	-	CARE AAA; Stable	1)CARE AAA; Stable (03-May-23)	-	-	-

LT: Long term.

Annexure-3: Detailed explanation of 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
2	Issuer rating-Issuer ratings	Simple

Annexure-5: Lender details: Not Applicable

Annexure-6: List of all the entities consolidated

Sr. No.	Name of the Entity	Extent of Consolidation	Percentage of Holding as December 31, 2023	Rationale for Consolidation
1	Jio Digital Fibre Private Limited	Full	51%	Sole SPV of DFIT

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:
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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