CareEdge RATINGS

Data Infrastructure Trust

August 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Issuer rating	-	CARE AAA; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Non-convertible debentures	7,900	CARE AAA; Stable	Assigned
Non-convertible debentures	2,000	CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has removed 'Rating watch with Developing Implications' on the issuer rating assigned to Data Infrastructure Trust (Data InvIT; an infrastructure investment trust [InvIT]) and assigned ratings to the proposed non-convertible debenture issue of Data InvIT. Earlier, the issuer rating assigned to Data InvIT was placed on 'Rating watch with Developing Implications' post announcement by Data InvIT for entering into a binding agreement for acquisition of 100% equity of ATC Telecom Infrastructure Private Limited (ATC), subjected to unitholders and regulatory approvals.

Data InvIT has now received key regulatory approvals including approval from Competition Commission of India. It has also finalised and tied up funding for acquisition consideration of around ₹18,600 crore through term debt of ₹12,800 crore and unit capital of ₹5,800 crore. The acquisition is expected to be completed by September 2024.

With acquisition of ATC business, having a portfolio of around 78,000 towers across India, Data InvIT is expected to become market leader in Indian telecom tower market, which is expected to strengthen its strong market position and competitive advantage. Data InvIT's debt coverage indicators marked by external debt/PBILDT and debt service coverage ratio, are expected to remain stable post this acquisition, considering prudent funding mix and healthy envisaged cash flows from ATC business supported by healthy tenancy ratio of its tower portfolio.

Issuer rating and rating assigned to instruments of 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 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 strong business linkages, strategic importance of SDIL's operations for RJIL, and with the expected growth in SDIL's tenancy ratio on the back of favourable long-term growth potential for 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 48% as on March 31, 2024 which is expected to go beyond 50% threshold post-acquisition albeit would remain comfortable.

Rating strengths are partially offset by the capital-intensive telecom tower business due to significant capital expenditure incurred for setting up tower network, resulting in moderate leverage, and susceptibility to cash flow volatility due to increased exposure to weak tenants post-acquisition of ATC.

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 and/or any material changes in the MSA with RJIL, adversely impacting SDIL's cash flows.
- Consolidated external debt/PBILDT remaining above 7 times on a sustained basis.
- Net debt/enterprise value of assets exceeding 60% on a sustained basis.
- Liquidity stretch due to deterioration in collection efficiency for weak tenants.

Analytical approach: Consolidated

For arriving at the credit rating of Data InvIT, CARE Ratings has considered a consolidated analytical view of Data InvIT and its underlying special purpose vehicles (SPVs), SDIL and Crest Digital Private Limited (CDPL). Strong operational linkages of SDIL with RJIL have been considered. Impact of proposed acquisition of ATC on DIT's consolidated credit risk profile has also been considered.

Entities consolidated in Data InvIT are listed in **Annexure-6**.

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

Outlook: Stable

CARE Ratings believe that post ATC acquisition, DIT shall have a leadership position in Indian telecom tower market and improvement in tenancies which shall result in strong cash flows, leading to a sustained strong credit profile of Data InvIT.

Detailed description of key rating drivers:

Key strengths

Leadership position in Indian telecom tower business

SDIL has a diversified tower portfolio of 174,451 towers as on June 30, 2024, with presence across all 22 telecommunication circles in India, making it the second-largest tower platform in India. SDIL has a fairly young tower portfolio, with an average age of less than five years, which is strategically located with minimal coverage overlap with competitors and has sizable space to accommodate multiple tenancies whereby around 89% of its tower portfolio has a tenancy potential of 2-4 tenants.

With proposed acquisition of ATC business, having around 78,000 towers, DIT is expected become a market leader in Indian telecom tower market with around 2,52,000 geographically well diversified towers. This large and widespread portfolio of quality towers is expected to further strengthen DIT's strong market position resulting in strong competitive advantage.

SDIL's 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, RJIL, for a long tenure of 30 years from September 01, 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, fully compensated by RJIL. The long-term agreement provides annuity-like cash flows to SDIL from RJIL, which has a strong credit risk profile. Until March 31, 2021, RJIL was the sole tenant of SDIL. Later, SDIL executed 10 years MSAs with other telecom service providers (TSPs) in India, namely, Bharti Airtel Limited, Bharat Sanchar Nigam Limited, and Vodafone Idea Limited. As on March 31, 2024, SDIL has onboarded other TSPs for 10,679 towers (9,132 towers as on March 31, 2023).

Strong business linkages and strategic importance of SDIL for RJIL

RJIL (a 66.43% subsidiary of Reliance Industries Limited [RIL] through Jio Platforms Limited), 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 strategically located telecom towers portfolio, with around 70% towers with a fiberised back-haul, leads to a significant competitive advantage for RJIL, resulting in strong business linkages and strategic importance of tower assets of SDIL to RJIL for its seamless operations.

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

Comfortable financial risk profile

Data InvIT had unit capital of ₹26,126 crore and external debt of ₹31,204 crore as on March 31, 2024, primarily to fund 174,451 tower portfolio of SDIL and 5,271 sites of CDPL.

Data InvIT is expected to fund acquisition consideration of around ₹18,600 crore (base enterprise value of ₹16,500 crore plus ticking fee) through external debt of around ₹12,800 crore and unit capital of around ₹5,800 crore. Data InvIT has already tied up external debt of around ₹12,800 crore in the form of non-convertible debentures (NCDs) of around ₹7,900 crore to be subscribed by foreign portfolio investors and rupee term loans/NCDs of around ₹4,900 crore tied up with banks and domestic financial institutions.

Post acquisition, consolidated debt/enterprise value of assets of Data InvIT is expected to reach around 53% (48% as on March 31, 2024). However, Care Ratings expects Data InvIT's debt coverage indicators to remain comfortable post-acquisition considering healthy cash flows from ATC's tower portfolio having healthy tenancy ratio of around 1.54x. DIT had external debt/ PBILDT of 6.39x as on March 31, 2024 which is expected to improve post-acquisition of ATC to around 5.60x by end FY25.

SDIL has anchor tenancy of RJIL for all 174,451 towers and shared tenancy for 10,679 towers resulting in tenancy ratio of 1.06x as on March 31, 2024. Thus, healthy tenancy of ATC towers, SDIL's strong anchor tenancy and expected improvement in SDIL's shared tenancies, is expected to result in strong cash flows, which is expected to be adequate for the servicing of Data InvIT's envisaged consolidated 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 1,204 million as on May 31, 2024. In FY23, the government's auction of the 5G spectrum led to rapid deployment of pan-India 5G services by industry's leading players, where strong growth in the 5G subscriber base is expected in the medium term. 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, DIT is expected to garner more tenancies from other telcos in the near to medium term. Overall, healthy growth prospects for the domestic telecom industry and strong prospects for shared tenancies amid the rapid 5G rollout augur well for DIT's growth prospects.

With rapid deployment of 5G technology, 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 such as CDPL.

Liquidity: Strong

Data InvIT consolidated external debt of ₹31,204 crore (debt of ₹29,800 crore at SDIL level, ₹167 crore at CDPL level and ₹1,238 crore at Data InvIT standalone level) and lease liabilities of ₹162 crore, against enterprise value of ₹63,620 crore, resulting in healthy consolidated net debt/enterprise value of 48% as on March 31, 2024. Data InvIT is expected to avail external debt of ₹12,800 crore for acquisition of ATC business.

Data InvIT, through its material revenue-generating asset, SDIL, has stable annuity-like cash flows from RJIL due to long-term MSA for 30 years. SDIL and ATC's tenancies from other telecom service providers with a MSA of 10 years provides additional cash flow cushion. These cash flows are expected to be comfortable enough for servicing Data InvIT's envisaged consolidated debt, where tariff payments from TSPs are received monthly and servicing of its debt is on a quarterly/half-yearly/yearly basis. Tenure of MSA with RJIL being long against tenor of external debt as well as the long residual life of the assets imparts strong financial flexibility to Data InvIT and aid in refinancing of debt at favourable terms, if required. Parentage of a strong group, i.e., Brookfield, ensures financial flexibility to fund the capex requirements as well.

Key weaknesses

Capital-intensive 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 consolidated leverage of Data InvIT resulting in consolidated external debt/PBILDT of 6.39x on March 31, 2024. However, CARE Ratings expect Data InvIT's consolidated debt/PBILDT to gradually improve considering healthy tenancy ratio of ATC and expected growth in tenancy ratio of SDIL.

Susceptibility to volatility in cash flows due to increased exposure to weak tenants

The domestic telecom industry is highly regulated and competitive, which can affect cash accruals and leverage profile of telecom companies. Until FY22, RJIL, which has a strong credit profile, was the primary tenant of SDIL, however, as SDIL has started on-boarding other tenants, exposing SDIL to counterparty risks in terms of delay in payments by some of these other tenants, can impact its cash flows. ATC has almost one-third of its tenancies from a TSP with weak financial risk profile. Data InvIT's ability to maintain healthy collection efficiency, especially for weaker tenants will be a key rating monitorable.

Applicable criteria

Rating Outlook and Rating Watch
Definition of Default
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 provisions of the Indian Trusts Act, 1882. The trust was registered as an InvIT with SEBI on March 19, 2019. In August 2020, on 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% units of the InvIT (58.36% holding as on March 31, 2024). Post this, InvIT acquired a 100% equity stake in SDIL. InvIT's units were listed on the Bombay Stock Exchange (BSE) on September 2020. Axis Trustee Services Limited is the trustee and Data Link Investment Manager Private Limited is the investment manager of Data InvIT. SDIL is Data InvIT's first investment and is engaged in operating telecom 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 and now InvIT is nearing to complete acquisition of ATC.

(₹ crore)

Brief Financials of DIT (Consolidated)	FY23 (A)	FY24 (A)
Total operating income (TOI)	11,100	12,878
PBILDT	4,288	4,886
PAT	797	1,119
Overall gearing (times)	1.75	2.35
Interest coverage (times)	2.06	1.95

A: Audited; Classified 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 last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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	-	-	-	-	-	CARE AAA; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	7,900	CARE AAA; Stable
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	2,000	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 2024-2025	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
1	Issuer Rating-Issuer Ratings	LT	-	CARE AAA; Stable	-	1)CARE AAA (RWD) (15-Jan-24) 2)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)
2	Debentures-Non Convertible Debentures (Proposed)	LT	7,900	CARE AAA; Stable	-	-	-	-
3	Debentures-Non Convertible Debentures (Proposed)	LT	2,000	CARE AAA; Stable	-	-	-	-

LT: Long term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures (Proposed)	Simple
2	Issuer Rating-Issuer Ratings	Simple

Annexure-5: Lender details: Not applicable

Annexure-6: List of entities consolidated in Data InvIT as on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Summit Digitel Infrastructure Limited	Full	Subsidiary
2	Crest Digital Private Limited	Full	Subsidiary
3	Roam Digitel Infrastructure Private Limited (RDIPL)#	Full	Subsidiary
4	Crest Virtual Network Private Limited (CVNPL)#	Full	Subsidiary

#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:
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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