KHAITAN &CO ADVOCATES SINCE 1911

India's Digital Infrastructure in Focus

2026 UPDATES

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FOREWORD

India's digital infrastructure is moving towards a global reference point. Over the last year, it has significantly developed on various fronts: the regulatory, technological, and institutional foundations laid through telecom reform, artificial intelligence (AI) deployment, satellite and submarine connectivity, and data protection legislation. As India enters 2026, several outcomes that were previously in consultation or pilot phases have begun to materialise, even as the next set of infrastructure developments continue to take shape.

At the centre of this transition lies the phased enactment of the Telecommunications Act 2023 (Telecom Act) and the rule-making pursuant to it. The Department of Telecommunications (DoT) has issued draft rules governing authorisations under the Telecom Act and is expected to operationalise the final authorisation regime in 2026 (with transition and migration arrangements for existing licence-holders and registrants). In parallel, the Telecom Regulatory Authority of India (TRAI) has released various recommendations aimed at strengthening the telecom regulatory architecture captured under the Telecom Act. If adopted, these recommendations are expected to further align regulatory structures with contemporary network architectures and investment models.

India's digital infrastructure continues to increasingly function as an integrated stack. Terrestrial and submarine networks form the foundational layer, enabling domestic and international connectivity. Above this sits compute and data infrastructure, including cloud, edge computing, and artificial intelligence grade capacity. Overlaying these layers are trust and governance mechanisms, anchored in regulatory oversight and reinforced through incentive frameworks such as Industry 4.0 initiatives and the Production Linked Incentive (PLI) scheme. This is relevant for investors, lenders, and operators, because value creation is now distributed across infrastructure ownership, managed services, and compliance-ready operations rather than only through consumer services.

Market Momentum & Key Metric

Telecom networks remain the backbone of this stack, enabling scale, resilience, and interoperability across digital services as India secured a spot in the top 50 countries in the Portolan's Institute's Network Readiness Index (2024). Network expansion continues to define sectoral momentum, a trend enforced by the Union Budget 2026. The Central Government has proposed an investment of approximately USD 8.19 billion for the telecom sector in the Union Budget 2026, marking a significant increase over the previous estimates.

This capital injection acts as a critical counter-cyclical stabiliser, targeting state-wise capex for projects such as BharatNet and the network rollout of Bharat Sanchar Nigam Limited. This state-directed capital ensures that the digital infrastructure extend to the remote areas, effectively expanding the Total Addressable Market for digital services.

Driven by this dual engine of public and private capex, sector revenue for FY27 is expected to touch approximately USD 20.2 billion, signalling robust monetisation potential despite heavy capex cycles. The Ericsson Mobility Report (November 2025) projects that India's fifth generation (5G) subscriber base will grow from approximately 394 million users by the end of 2025 to nearly one billion users by 2031, implying penetration levels approaching eighty percent. Tele-density in India is also at a considerable level of 86.65%.

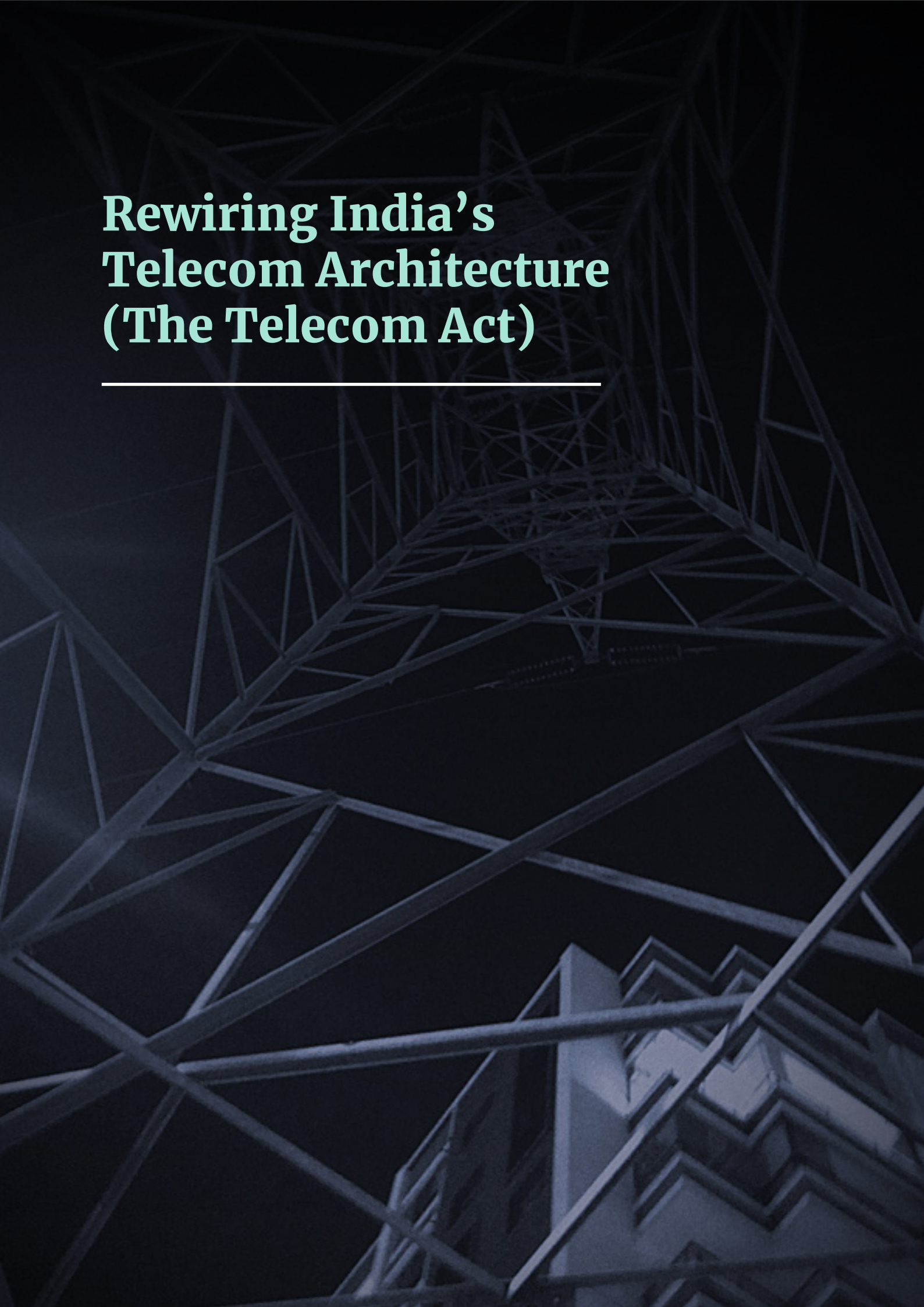
India's AI momentum is being powered by an initiative towards building sovereign AI ecosystems. The Indian Government estimated projections of USD 150 billion in AI infrastructure investment at Davos 2026, to reduce reliance on foreign platforms. Additionally, over the medium term, the Ministry of Electronics and Information Technology (MeitY) estimates that AI is projected to contribute approximately USD 1.7 trillion to India's economy by 2035, reinforcing the importance of resilient and scalable digital infrastructure. Regulatory clarity viz., enactment of the Digital Personal Data Protection Act (DPDP Act) and rules under it are expected to support responsible deployment of AI systems while strengthening trust in data driven services.

At the same time, programmable network capabilities and network application programming interfaces are gaining traction as operators, enterprises, developers, and digital service providers increasingly rely on software driven network functions. This growth trajectory is expected to drive sustained investment in network expansion and modernisation. The sector is likely to be shaped by AI led network automation, alongside the continued build out of data centres and transport infrastructure to support cloud and edge computing workloads.

These developments coincide with India's emergence as a global electronics manufacturing hub, driven by the Make in India program and allied initiatives such as the PLI and Design Linked Incentive (DLI) schemes. Interestingly, DoT recorded an increase in start-ups' participation in the 9th edition of the India Mobile Congress where start-ups presented solutions in areas such as optical communications, AI, fraud risk detection, etc. These manufacturing focused interventions have had a tangible impact on digital infrastructure by stimulating domestic production of critical hardware, deepening supply chains, reducing import dependence, and strengthening the ecosystem that underpins networks and digital services.

Investments recorded under the telecom and networking products incentive programmes, together with broader manufacturing incentives, signal expanding industrial participation in the physical backbone of Digital India. Collectively, these developments position India's digital infrastructure ecosystem to scale locally, deploy efficiently, and operate with greater resilience as it moves through 2026.

Rewiring India's Telecom Architecture (The Telecom Act)



Key Takeaways: Regulatory Overhaul

- The Telecom Act replaces a fragmented licensing regime with a consolidated authorisation framework.
- Potential consolidation of the National Long-Distance **(NLD)** and International Long-Distance **(ILD)** licences into a single long-distance authorisation enables integrated planning and financing of domestic and international backbone networks.
- Proposed captive telecommunication services authorisation introduces a light touch framework for private networks, supporting enterprise, industrial, and campus connectivity use cases.
- Proposed light-touch authorisation for Internet Exchange Points (IXPs) is expected to promote ease-of-doing-business.
- The Digital Connectivity Infrastructure Provider (DCIP) authorisation expands permissible infrastructure to include specified active infrastructure.
- Regulatory recognition of shared active infrastructure by a neutral third-party enhances long term investment.

Shift to a Consolidated Authorisation Regime

India's telecom sector has historically been governed through a service specific licensing framework. TRAI and DoT, in response to market growth and technological change, proposed to change this to a consolidated authorisation framework under the Telecom Act. While the licensing regime supported the expansion of mobile and broadband services, it also resulted in fragmented regulatory categories, overlapping compliance obligations, and ambiguity in flexible network design. The Telecom Act seeks to address these by introducing a consolidated authorisation framework for the regulation of telecommunication services including new age technologies, enabling regulatory oversight to align more closely with functional layers of the market. TRAI's 2025 annual report also states that the intent of Telecom Act and the shift in general telecom framework is to move towards a technology-neutral, light-touch framework to facilitate entry of new players and attract investments.

Long-Distance Service Authorisation

In late 2025, DoT released the Draft Telecommunication (Authorisation for Provision of Main Telecommunication Services) Rules 2025. Among other things, the draft rules consolidate the NLD and ILD into a single Long Distance Service Authorisation. This consolidation reduces regulatory duplication and allows entities to plan, finance, and operate domestic and international backbone networks under a single authorisation.

For network operators and infrastructure providers, this enables more coherent capacity planning and capital deployment across high throughput optical corridors that support 5G mobile traffic, cloud interconnection, and latency sensitive AI workloads. Additionally, integrated backbone planning improves network resilience and utilisation, both of which are critical as data consumption scales. Accommodating the massive subscriber growth highlighted earlier in the

Foreword, which Ericsson projects to reach nearly one billion users by 2031, requires backbone networks capable of absorbing exponential traffic increases without corresponding escalation in cost or operational complexity.

A further commercial implication is that long-distance authorisation design may influence subsea access models and CLS/CLS PoP participation, which in turn impacts hyperscalers, content networks, and data centre operators negotiating for capacity, routing diversity, and resiliency.

Captive Service Authorisation

Alongside the draft main service authorisation rules, DoT has also released the draft Telecommunication (Authorisation for Captive Telecommunication Services) Rules 2025. The rules follow TRAI's earlier recommendations to create a dedicated authorisation framework for captive use. These rules enable eligible entities to establish and operate captive telecom networks for their own internal use under a light-touch regulatory framework.

The captive service authorisation rules mark a significant step in providing a statutory framework for recognition of captive networks. The captive authorisation rules permit the deployment of private 5G networks, Wi Fi systems, and optical backbones for closed user group operations, without requiring entities to obtain a full-fledged service authorisation.

The introduction of the captive authorisation framework is expected to catalyse investment in connectivity across manufacturing facilities, logistics hubs, ports, data centres, and large enterprise campuses.

These deployments are structurally intertwined with next-generation industrial digitisation, including automation, robotics, predictive maintenance, digital twins, and real-time supply-chain visibility. In particular, the availability of captive fibre and private wireless networks facilitate large-scale adoption of industrial Internet of Things (IoT) applications. Collectively, this will directly support Industry 4.0, which relies on tightly integrated digital and physical systems. By recognising captive networks, investment predictability is expected to be improved. The captive authorisation framework strengthens ease-of-doing-business in India.

From a legal perspective, a key issue for 2026 is expected to be boundary clarity – that is, the extent to which captive networks can support third-party users within an enterprise ecosystem (vendors, contractors, tenants, logistics partners) without being treated as a public telecom service.

Internet Exchange Point (IXP) Authorisation

IXP plays a critical role in enabling efficient routing of internet traffic within India by allowing networks to exchange traffic directly rather than through upstream transit providers. As data volumes grow and latency sensitive workloads such as cloud services and AI scale, the importance of domestic traffic exchange has increased materially. Despite their functional significance, there was no express clarity on the regulation of IXPs. However, in practice, DoT has required IXPs to obtain Internet Service Provider license under the Unified License, resulting in hefty compliance obligations.

The draft rules seek to address this gap by proposing a light-touch authorisation framework for IXPs. Regulatory clarity and light-touch framework is expected to support wider deployment of IXPs and improve network performance for cloud, over-the-top, and AI workloads hosted within India. As domestic peering becomes more strategically important for latency and resilience, IXPs may also become more central to security and operational readiness expectations across major connectivity and data centre clusters.

Digital Connectivity Infrastructure Provider Authorisation

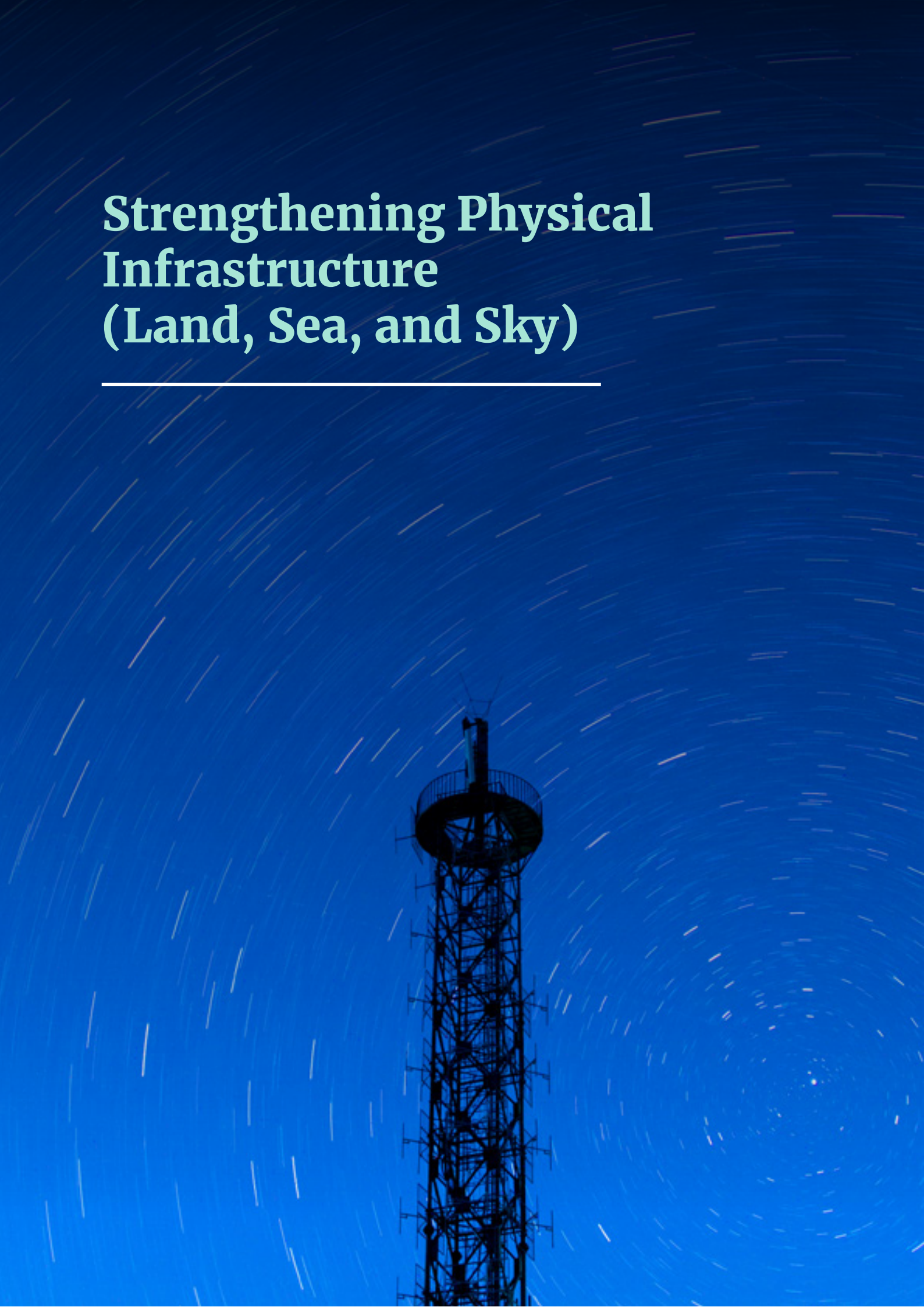
The technical composition of telecom networks has shifted materially over the past decade. Networks increasingly rely on virtualised, software defined, and distributed components across access and transmission layers. Currently, infrastructure sharing is enabled through the Infrastructure Provider Category-1 (IP-1) service providers. The IP-1 framework permits entities to establish and lease passive infrastructure such as towers, ducts, dark fibre to licensed telecom service providers (TSP). While this model supported earlier phases of network rollout, it drew a strict regulatory distinction between passive infrastructure and active infrastructure with active infrastructure permitted to only be installed by TSPs.

The draft Telecommunications (Authorisation for Telecommunication Network) Rules 2025 introduce a new category of authorisation viz., the DCIP authorisation. Under the proposed framework, DCIPs may establish and lease passive infrastructure and selected active infrastructure (such as transmission links, in-building solutions) on a non-discriminatory basis. This follows from recommendations issued by TRAI which recognised that the economics of 5G network deployment are driven by densification, in building coverage, and fibre deep architectures. Replicating such infrastructure across multiple TSPs significantly increases capex and slows deployment. Neutral host and shared infrastructure models address this challenge by separating infrastructure ownership from service provision.

While the rules remain in draft form as of 2026, their alignment with TRAI's recommendations indicates a clear policy intent and is likely to come into effect in mid-2026.

> From an investment perspective, the Telecom Act signals a shift toward regulatory stability and long-term policy alignment. Telecom infrastructure assets are characterised by high upfront capex and extended asset lifecycles. The move away from service specific licences toward a consolidated authorisation model reduces regulatory obsolescence risk as network technologies evolve toward software defined and virtualised architectures. In 2026, while several rules remain in draft form, the alignment between the Telecom Act, the proposed authorisation framework, and recommendations issued by TRAI indicate a settled policy direction.

Strengthening Physical Infrastructure (Land, Sea, and Sky)



Key Takeaways: Physical Infrastructure

- The Telecom Act and draft authorisation rules provide regulatory clarity for cable landing stations (CLSs) and cable landing station points of presence (CLS PoPs).
- Expanded access to subsea capacity supports integration with domestic networks and data centres.
- Submarine cable systems are classified as critical telecom infrastructure to balance regulatory oversight with infrastructure openness and operational integrity.
- Satellite earth station gateways (SESGs) is being formally integrated into India's telecom framework through a dedicated authorisation.
- Satellite broadband complements terrestrial networks by extending connectivity to remote areas.
- TRAI has recommended administrative allocation of spectrum with a fixed fee on adjusted gross revenue (AGR).

Terrestrial: Right of Way (RoW)

DoT, in its 2025-year end review announced the Centralised Right of Way (RoW) portal which was upgraded in line with the Telecommunications (Right of Way) Rules 2024. This portal was subsequently updated. By significantly reducing approval timelines by approximately 13 times, from an average of 448 days in 2019 to around 34 days as of November 2025 (as stated) and enabling nearly 25% of applications to be disposed of within 15 days, the portal has addressed one of the most persistent bottlenecks in telecom infrastructure deployment.

The disposal of approximately 381,000 applications for towers and optical fibre cable permissions reflects administrative efficiency and an attempt at structural acceleration in network expansion and densification.

Under the Sea: Submarine Cable Infrastructure

Submarine cables occupy a central position in India's digital infrastructure architecture. They carry international data traffic and serve as the primary conduits for global cloud connectivity, content delivery, and cross border digital services. As data volumes increase and latency sensitive workloads such as AI, financial services, and real time applications proliferate, the strategic importance of submarine cables has intensified.

The Telecom Act recognises this importance by classifying submarine cable systems as 'critical telecom infrastructure'. This classification reflects importance of submarine cables in national security, economic continuity, and digital resilience.

Regulatory clarity around submarine cable has been much awaited by stakeholders. DoT, drawing from TRAI's recommendations, have now, under its draft rules, permitted Long-Distance Service Authorisation holders to establish and operate CLSs, where submarine cables connect to domestic terrestrial networks. In addition, the rules now expressly recognise CLS PoPs, enabling submarine capacity to be extended inland beyond primary coastal landing sites. This distinction is material. Historically, access to submarine cable capacity was concentrated at a limited number of coastal landing stations, constraining competition and flexibility in network design.

By permitting the establishment of CLS PoPs and allowing submarine line terminal equipment to be deployed at such CLS PoPs, the authorisation framework allows the termination of submarine capacity at locations away from the physical landing station, facilitating closer integration with inland data centres, core networks, and cloud infrastructure. This supports more efficient traffic routing, reduces dependency on single coastal nodes, and improves overall network resilience. The opening of the submarine layer to a broader set of participants has structural implications for India's role in regional and global connectivity.

Data centres, content networks, and international carriers can now access subsea capacity through authorised points of presence rather than relying exclusively on traditional landing station arrangements. This positions India to function not only as an end destination for international traffic, but also as a transit and aggregation hub for regional data flows across South Asia, the Middle East, and Southeast Asia. At the same time, the classification of submarine cables as critical infrastructure indicates that this expanded access is expected to be accompanied by heightened regulatory scrutiny, including security controls, incident readiness, and vendor assurance expectations, which will shape contracting and operating models for CLS and CLS PoP operators.

In 2026, submarine cable investment is expected to be driven by demand from cloud service providers, hyperscalers, and content platforms seeking low latency, high-capacity routes into and out of India. These investments are closely linked to the growth of domestic data centre capacity and the localisation of cloud and AI workloads.

The Sky: Satellite Infrastructure

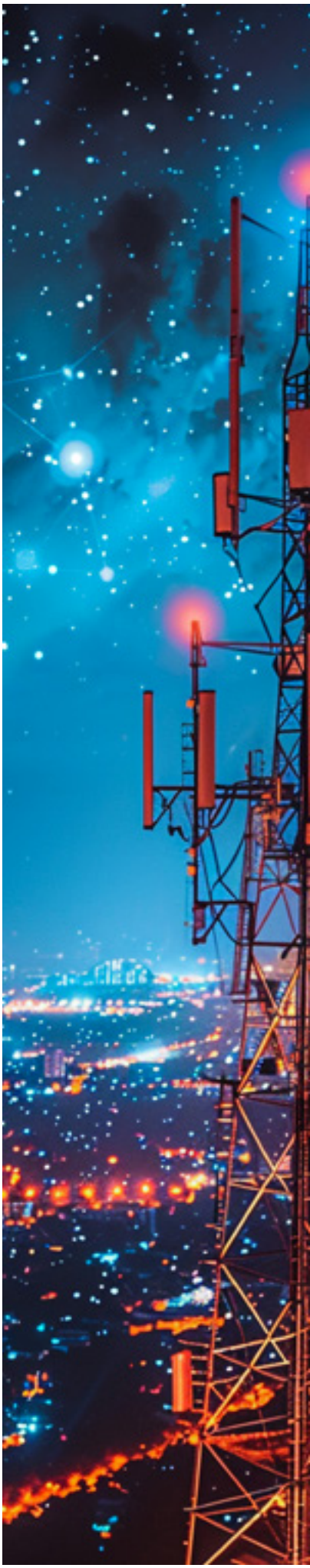
Satellite networks form an increasingly integral layer of India's digital infrastructure, particularly in contexts where terrestrial connectivity remains commercially, geographically, or operationally constrained. As India's digital economy expands and data driven services deepen across sectors, satellite connectivity is transitioning from a supplementary solution to a structurally embedded component of national network architecture.

According to Mordor Intelligence, the Satellite Communication Market in India is estimated at USD 3.07 billion in 2025 and is expected to reach USD 6.81 billion by 2030. In 2026, this transition is shaped primarily through regulatory clarification and the integration of satellite systems within the broader telecom framework.

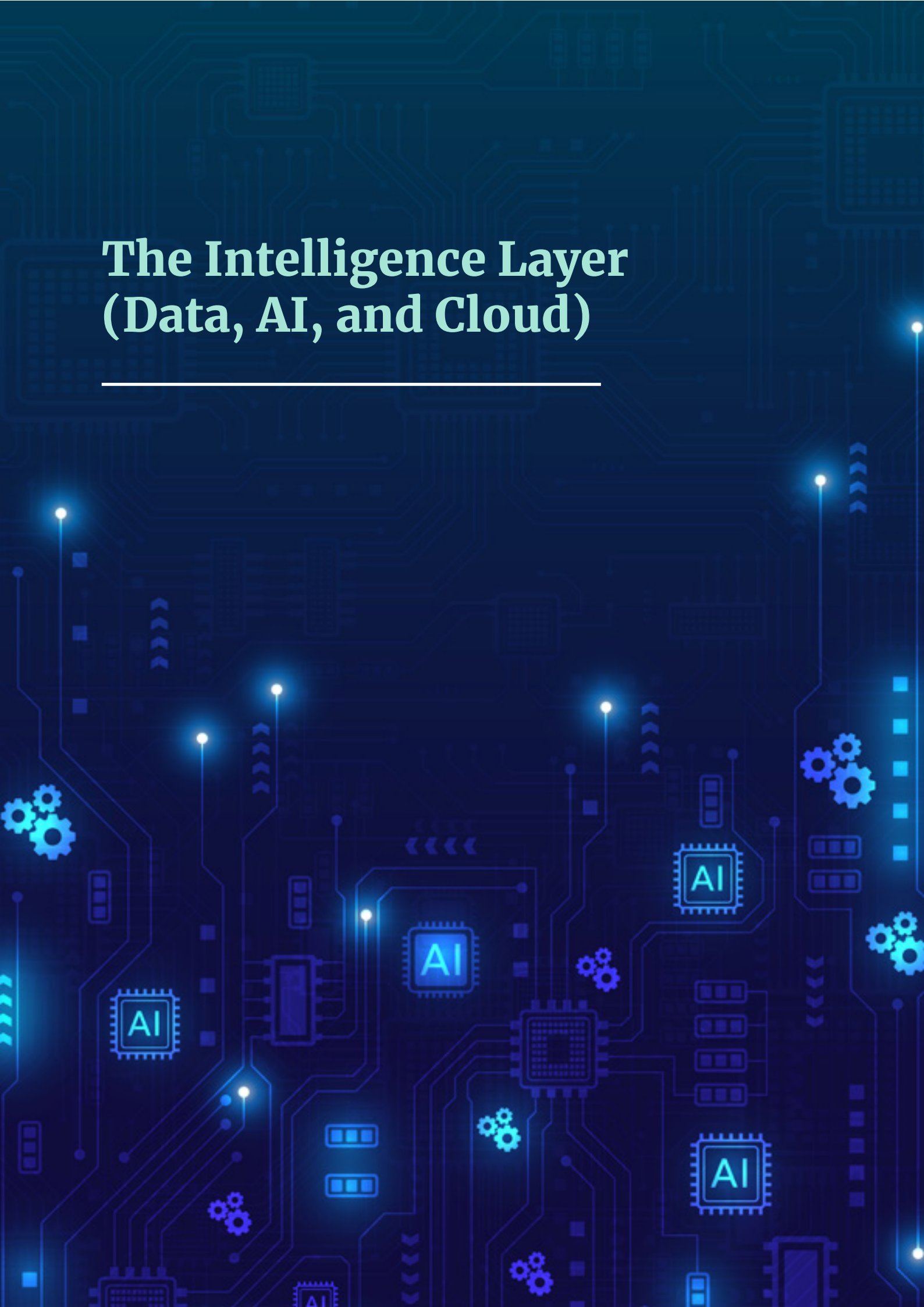
The draft rules introduce a distinct authorisation for SESGs. This authorisation enables entities to establish, operate, and expand gateway infrastructure within India for satellite systems that have received the requisite approvals from the Department of Space and the Indian National Space Promotion and Authorisation Centre. The framework provides long awaited regulatory certainty for teleport and gateway operators and establishes a clear basis for anchoring satellite traffic within domestic ground infrastructure.

The requirement for satellite operators to route traffic through locally established gateways has important implications. It ensures that satellite communications entering or exiting India are subject to domestic security, interception, and lawful access requirements. At the same time, it drives investment into terrestrial backhaul, secure network management systems, and data centre connectivity that link gateway infrastructure with core networks and cloud platforms.

In effect, the sky layer is being formally integrated into India's terrestrial digital infrastructure stack rather than operating at its periphery. By 2026, the entry of satellite broadband service providers under this authorisation framework is expected to have a material impact on connectivity outcomes in remote and underserved regions. Satellite broadband is positioned to address coverage gaps in areas where fibre deployment is challenging, and mobile network expansion is economically unviable. These services complement rather than substitute terrestrial fifth generation and fibre networks, forming hybrid architectures that improve overall network resilience and reach. Additionally, TRAI has recommended administrative allocation of spectrum rather than auction with a 4% fee on AGR, which may potentially be more cost-effective. DoT is yet to finalise these recommendations.



The Intelligence Layer (Data, AI, and Cloud)



Key Takeaways: Data & AI

- The Data Protection Act and rules require infrastructure intensive compliance with consent and audit requirements driving sustained investment in secure cloud and storage.
- Consent managers introduce a new regulated infrastructure layer within the digital ecosystem.
- AI is an infrastructure intensive workload driving demand across networks, cloud, and data centres.
- India's data centre capacity is expanding rapidly to support AI and cloud driven compute demand.
- Cloud ecosystem is expected to double in 2026, due to drivers such as 5G, AI, and IoT.
- While the general cloud services remain market-driven, cloud-hosted telecom network as a service **(CTNaaS)** may potentially be regulated under a light-touch framework, making allocation of compliance responsibility in managed service arrangements a key commercial issue.

The Era of Data Protection (DPDP Act)

With India's data protection framework entering into an operational phase, a consent-centric model for the processing of personal data is a mandatory requirement. The rules released under the DPDP Act provide implementation timelines of 12-18 months (i.e., around May 2027 for most operative provisions), with data fiduciaries (akin to data controllers) onsetting compliances. Data fiduciaries are required to issue consent notices, obtain and record valid consent and withdrawals, and implement audit-ready processing governance. These obligations require massive infrastructure investments with systems capable of recording, managing, and auditing data processing activities across distributed digital environments.

Industry assessments suggest that organisations operating in regulated and data intensive sectors are increasing technology spend on data governance, security, and compliance by 25-30% following the operationalisation of DPDP Act. This spend is directed toward secure storage, identity and access management, encryption, logging, and continuous monitoring capabilities. As a result, compliant cloud environments and secure data centre infrastructure have become central to DPDP readiness.

The DPDP Act also introduces 'consent managers.' Consent managers operate as regulated intermediaries that enable data principals to manage, review, and withdraw consent across multiple data fiduciaries. They are subject to heightened technical and organisational safeguards, including security controls, interoperability requirements, conflict management, and detailed record keeping. The possible emergence of consent managers introduces a new infrastructure intensive layer within India's digital ecosystem, with system

requirements comparable to other regulated digital intermediaries handling sensitive, transaction heavy workflows. In practice, the market impact will depend on how consent managers are operationalised through registration, standards, interoperability frameworks, and liability allocation.

By 2026, spending linked directly to data protection, compliance driven cloud adoption, and security infrastructure in India is estimated to exceed USD 10 billion annually, with financial services, health, telecom, and large digital platforms accounting for a significant share. Further, industry and multilateral estimates indicate that India is expected to account for nearly one fifth of global data growth by the middle of the decade, driven by digital public infrastructure, platform-based services, and enterprise digitisation. As data volumes expand, the compliance surface under the DPDP Act increases proportionately.

AI as an Infrastructure Driver

India's AI ecosystem is expanding rapidly within a policy environment that emphasises responsible deployment and domestic capability creation. The IndiaAI Mission seeks to develop a comprehensive ecosystem spanning compute infrastructure, datasets, talent development, and governance frameworks. For this, the Union Budget 2026 announced an allocation of approximately USD 110 million to the IndiaAI mission. This approach reflects the recognition that AI capability is contingent on underlying infrastructure scale rather than application and innovation alone.

AI workloads are already reshaping demand patterns across digital infrastructure. According to Boston Consulting Group, around 80% of Indian companies believe AI to be a core strategy. Increasing training and inference activities require high bandwidth connectivity, low latency transport networks, and Graphics Processing Unit (GPU) dense compute environments. As a result, telecom operators and cloud service providers are investing in network modernisation, fibre backbones, edge infrastructure, and data centre expansion to support artificial intelligence driven traffic and processing requirements.

The Union Budget 2026 proposed the creation of dedicated rare earth corridors across four states to catalyse domestic mining, processing, R&D and downstream manufacturing of critical minerals. This initiative strengthens India's strategic AI and advanced-computing supply chain, given the central role of heavy rare earth elements in semiconductors, data-centre hardware, robotics, electric mobility and defence-grade systems. These corridors are a structural enabler for scalable AI infrastructure and hardware localisation in the medium term.

India's data centre capacity is projected to expand rapidly through 2026. A report by Avendus Capital indicates that operational data centre capacity is expected to grow from approximately 1 gigawatt to over 3 gigawatts within a short time horizon, with AI and cloud workloads accounting for a substantial share of incremental demand.

From an economic perspective, artificial intelligence is expected to be a significant contributor to India's growth trajectory. Projections from the MeitY estimate that AI could contribute around USD 1.7 trillion to India's economy by 2035, underscoring its role as a long-term productivity driver. In the nearer term, this potential is translating into sustained capital deployment across infrastructure layers that enable AI at scale.

Governance and Safety

While AI growth is at pace, there is also an attempt to establish governance around ethical use of AI. In November 2025, the MeitY released the India AI Governance Guidelines under the IndiaAI Mission. The guidelines set out principles and expectations for the responsible, safe, inclusive and human-centric use of AI across sectors. While they are not a statute, they represent an official government-issued policy framework that informs governance and compliance practices for AI systems in India. They seek to balance innovation and risk management by articulating expectations around transparency, accountability and safety.

Additionally, the Telecommunication Engineering Centre released a technical standard to document AI incidents. While it does not prescribe reporting standards and mitigation measures, it supports structured data collection and enables interoperability across reporting frameworks. The larger intent of these frameworks appears to be to strengthen the operational robustness, fault tolerance, and future-readiness of AI-related digital infrastructure.

AI Foundations in the Cloud

It is expected that cloud ecosystem and data centres will play a key role to support increase in AI workload, offering compliance cyber-resilience, data localisation and secure access to data sets. Interestingly, while the general cloud-related services remain unregulated in India, DoT has propositioned a light-touch authorisation for cloud-hosted telecom network (CTN) provider under its draft authorisation rules. CTNaaS providers can provide software, virtual routers, scalable network topologies to other authorised entities. The intent seems to adapt to increasing changes in traditional telecom equipment with the advent of AI (such as radio access network controllers' intelligence, serving gateway, etc.), while keeping the general cloud services market-driven.

According to India Brand Equity Foundation, India's data centre capacity is expected to double in 2026 with a USD 6 billion investment due to 5G, AI and IoT. To drive further growth, Centre for Development of Advanced Computing under MeitY has launched AI Research Analytics and Knowledge Dissemination Platform (AIRAWAT) which will act as a common cloud computational cloud platform to enable interoperability. The intent is for common stakeholders to develop indigenous AI-enabled products and solutions for Finance, Healthcare, Automotive industry, etc.

Operationalising Digital Reforms

Key Takeaways: Digital Regulatory Reforms

- India is witnessing sustained regulatory reform, anchored in digitisation, strong execution, and capital friendly policy design to accelerate digital infrastructure development.
- The Telecoms Act places strong emphasis on digital first implementation, with simplified and digitised Government to Citizen and Government to Business interfaces (including the centralised RoW portal and the Sanchar Saathi application) thus reducing compliance burdens.
- A long term approach to network evolution is reflected in initiatives such as the Bharat 6G Alliance, which aims to build domestic R&D capacity, contribute to global standard setting, and prepare the ecosystem for advanced 5G and future 6G deployment.
- Investment oriented measures, such as the (PLI) scheme, have shown strong traction even 5 years after its initiation, reinforcing India's attractiveness as a technology and manufacturing destination.
- Efforts to align India's digital ecosystem with global standards, supported by initiatives such as the EU India Trade and Technology Council (TTC) and India-Germany Joint Declaration of Intent, are expected to enhance interoperability, standardisation, hence lower entry barriers for global stakeholders and investors.
- The Union Budget 2026 further improves the business environment by grouping software development, ITES, KPO, and contract R&D into a single category for transfer pricing with a 15.5% safe harbour margin.

As India enters a decisive implementation phase of several long-anticipated regulatory reforms, there is a clear and deliberate push towards digitisation, execution certainty, and capital-friendly policy design. New reforms are being operationalised through digital-by-design frameworks, streamlined approval mechanisms, and targeted flagship schemes aimed at accelerating digital infrastructure creation. This transition is visible in the Central Government's emphasis on simplifying regulatory interfaces and reducing compliance friction. In parallel, the policy architecture reflects a conscious effort to balance ease of doing business with security considerations. As noted in DoT's 2024 year-end review, India has been placed in Tier-1 under the Global Cybersecurity Index 2024, underscoring the Central Government's intent to build an ecosystem that is secure and globally benchmarked.

Digital by Design

A key theme of the Telecom Act is its digital implementation. In furtherance of DoT's broader objective of enhancing ease of living and ease-of-doing-business, a concerted effort has been undertaken to reduce compliance burdens by simplifying and digitising Government-to-Citizen and Government-to-Business interfaces such as the launch of e-services portal under the Telecommunications (Telecom Cyber Security) Rules 2024, centralised RoW portal, Sanchar Saathi application, etc. Complementing this, the Union Budget 2026 has introduced fully automated approvals for the newly simplified transfer pricing regime for IT services. By removing the 'tax officer scrutiny' layer for routine safe-harbour applications,

the government is signalling a critical shift from 'permission-based' compliance to 'trust-based' compliance. This lowers the administrative friction for mid-sized stakeholders entering the Indian market, allowing them to focus resources on deployment rather than compliance management.

Bharat 6G Alliance

The Central Government has also retained a long-horizon perspective on network evolution. The Bharat 6G Alliance is indicative of this approach. The initiative seeks to build domestic R&D capacity, contribute to global standard-setting, and prepare the ecosystem for future 5G evolution and 6G deployment by deploying next generation technology designs in telecom networks. To further accelerate high-risk innovation in this domain, the Union Budget 2026 has introduced a fast-track Advance Pricing Agreement process for IP-heavy or high-risk R&D, which promises conclusion within two years, with a potential extension. Deep-tech R&D, whether in 6G, quantum computing, or AI algorithms, has uncertain valuation models that often lead to prolonged tax disputes. A two-year closure guarantee allows multinational stakeholders to deploy IP-creation mandates in India with fiscal certainty.

PLI Scheme

The PLI scheme was launched in 2020 to attract global companies in 14 critical sectors (as specified). The scheme continues to record a strong performance. DoT reported cumulative investments exceeding USD 560 million, total sales of over USD 11.6 billion, including exports worth around USD 2.3 billion.

Global Standards

The TTC was launched in 2023 by the European Commission and India's Prime Minister, Narendra Modi. The first Working Group under TTC launched three initiatives, among which was to strengthen interoperability between India's and European Union's digital public infrastructure. Alignment with global standards is expected to materially strengthen digital infrastructure interoperability, enabling smoother cross-border data flows, interoperable digital payments, and trusted digital identity use cases. This in turn will lower entry barriers for potential stakeholders/investors.

India is being widely recognised for having built a mature ecosystem around three foundational layers viz., digital identity, digital payments, and data-sharing (collectively, India Stack). It is seen that multiple regulators are increasingly taking into consideration global standards while formulating new laws/regulations in India to position itself as an investment hub.

Additionally, India and Germany have also signed a Joint Declaration of Intent for telecommunication and information and communication technology (ICT) to strengthen collaboration in future digital technologies. This formalised long-term collaboration is expected to open up opportunities for innovation with shared standards and coordinated policy approaches that can accelerate the deployment of digital services advanced networks. Standardisation with Germany (which is a leading ICT economy) is predicted to attract investments in this sector.

Fiscal Rationalisation and Transfer Pricing Reform

To further improve Ease of Doing Business and attract mid-to-large investors, the Union Budget 2026 has simplified transfer pricing for IT services. Software development, Information Technology Enabled Services, Knowledge Process Outsourcing, and contract R&D have been grouped into a single category with a 15.5% safe harbour margin, with the eligibility threshold substantially raised to approximately USD 238 million. This structural change addresses one of the most common litigation points for Global Capability Centres (GCCs). By grouping KPO and R&D with standard IT services, the government is acknowledging the blurring lines between 'support' and 'innovation' in modern GCCs. The higher threshold encourages GCCs to scale operations without graduating out of the safe harbour safety net, effectively positioning India as a friction-free head-quarter for global tech operations.

Sustained Demand for Data Centres

Key Takeaways: Data Centres Growth

- There's a growing trend of data centre operators and real estate developers forming joint ventures/platforms in India, combining technical expertise with land development skills for data centre development. Financial sponsors backing India's data centre operators are likely to experience an uptick in investment activity.
- Policy makers remain busy, with a National Data Centre Policy possibly on the horizon. Reforms announced in India's Union Budget 2026 could significantly enhance the investment case for data centre development in India.
- Onshore fund structures, and the use of GIFT International Financial Services Centre (GIFT IFSC) are emerging as potential investment routes for India's data centre market, with ESG considerations set to play a larger role in M&A deals.
- Colocation is becoming increasingly popular among businesses for its cost-effectiveness, offering secure and reliable data hosting services without the need to build and maintain their captive data centres.
- The Indian Government's announcement to set up data embassies in GIFT IFSC signals its plan to position India as a trusted data storage ecosystem, driven by advanced infrastructure and strong data security. There is expectation that the Government will release a draft policy for setting up data embassies.

India's data centre growth story persists owing to several well-identified factors generating demand and thus, as a logical and corollary response, significant strides have been made from the supply side as well to make available the requisite data centre inventory – with there being room for more expected in 2026.

In the Indian market, demand has been consistently driven by hyperscalers, cloud service providers, banking and financial services industry, OTT industry, social media and public sector undertakings. Consequently, there has been a steady source of offtake leading to data centre occupancy levels to be somewhere between about 65-80% as per certain reports (with location-wise variations observed). The demand for data centres is anticipated to continue throughout this year with OTT content consumption, widespread smartphone accessibility, and the roll-out of 5G and high-speed WiFi internet, serving as the tailwinds.

Concurrently, enterprises are constantly exploring growth opportunities through cutting-edge technologies like cloud computing, AI analytics, Internet of Things (IoT), etc., all of which heavily rely on robust data centre infrastructure.

On the supply side, Mumbai, Hyderabad and Chennai continued to remain the preferred destination for data centre inventory, Noida Bangalore and Kolkata are poised to be hubs for future data centre stock. Amongst other things, infrastructure measures such as expansion of subsea cables and availability of surplus power and water will see certain geographies doing better than others – though the geographic spread will nevertheless widen.

The growth is also backed by the Government's positive intent to make India a preferred destination for data centres. Policy incentives and ease of doing business initiatives across states have been framed to provide much needed impetus to set up data centres. Regulatory reforms such as inclusion of data centre within the meaning of "infrastructure" have enabled a more conducive environment to bolster investments into the burgeoning data centre environment. On the policy front, a new national data centre policy can be expected to be on the anvil[1].

Tax Reforms and Data Centres

The Indian government has proposed a tax holiday until 2047 for notified foreign companies providing cloud services to global customers using data centre infrastructure located in India. In practical terms, the proposal allows foreign cloud service providers to have notified data centres set-up in India and earn revenue from global customers without such global (non-India sourced) income being taxed in India until 2047. Importantly, to avail of the benefit in case of Indian customers, such companies must serve these customers through a local reseller entity, which will continue to be taxed in India.

A 15% "Safe Harbour" margin on costs has been proposed for cases where the company providing data centre services from India is a related entity of the customer. In practice, this would mean that

- The resident (India) data-centre service provider can charge its related foreign cloud entity on a cost-plus basis, and
- If it earns at least a 15% markup on the relevant cost base, the pricing should be treated as arm's length (i.e., not litigated under transfer pricing).

This is likely to offer the much-needed transfer pricing certainty risks, and reduce tax litigation.

Deal Making and Data Centres

Foreign investors are increasingly recognising the potential of India's data centres. Since 2020, global players, domestic real estate investors, and private equity firms have made substantial investments in the sector[2].

There has been a noticeable uptick in deal making in the data centre space in India with platform deals/ joint venture deals being the flavour of the season. An emerging trend has been data centre operators and real estate developers collaborating on data centre development, an obvious synergistic alliance – bringing in technical expertise in data centre services together with land/site procurement expertise. One such notable transaction includes the USD 1.7 billion transaction between Colt Data Centre Services and RMZ. 2025 also witnessed strategic partnerships between private equity majors and Indian conglomerates, to develop data centres (particularly, AI - focussed). Looking ahead to 2026, increased participation from financial sponsors in India's data centre ecosystem is expected.

[1]Source: https://w.media/indias-draft-national-data-center-policy-2025-industry-leaders-cautiously-optimistic/
[2]Source: https://www.ibef.org/news/india-s-data-centre-industry-is-expecting-an-investment-of-us-10-billion-over-the-next-three-years-cii-colliers-report

That said, greenfield development by data centre operators is likely to remain the primary driver of deal activity. The monetisation of land banks will create natural exit opportunities for developers, distressed corporates, and large landholders, as operators seek strategically located sites to support expansion. In parallel, corporates may increasingly divest captive data centres to co-location operators, unlocking capital while enhancing operational efficiency. While this transaction structure has not historically been common in India, the segment is expected to gain traction and emerge as a meaningful source of deal flow.

Though at nascent stage, due to conducive regulatory reforms (tax and non-tax), onshore fund formation structures, foreign venture capital investment route and possible use of GIFT IFSC are being contemplated as possible investment routes for the data centre market and we would anticipate traction for these structures this year or soon thereafter. ESG considerations are also expected to play a more prominent role in M&A deals in the Indian data centre market.

Upswing of Interest in Colocation Facilities and Offtake Arrangements

The country has seen a steady rise in colocation facilities, which provide shared data centre spaces and resources to various tenants. Colocation has become a preferred solution for businesses seeking affordable, secure, and reliable data hosting services without the burden of building and maintaining their own data centres. A significant rise in data centres is expected to flow from public sector undertakings and government enterprises, as they place greater emphasis on digitisation and e-governance to streamline operations.

Perhaps the most critical reason for investor interest in the Indian market has been the potential demand being generated by hyperscalers. Data centre customer contracts in India have typically followed the common trends and issues observed globally. These contracts are structured either as services agreements or leases/sub-leases for a variety of leasing/services models such as fully fitted colocation services or turnkey/built-to-suit particularly for hyperscalers. In India, service agreements are more commonly used as opposed to sub-lease models. However, use cases have been observed for both contracting models. Further, customer contracts in India can be location specific or global/master agreement with shorter local contracts or work orders.

Data Embassy Policy

From few announcements by the Indian Government on setting up data embassies in GIFT IFSC in India, it appears that permitting countries and international companies to set up data embassies in India is a part of the bigger plan of Indian Government to build India as a trusted data storage ecosystem. India is also emerging as a compelling destination for hosting data embassies, owing to its sophisticated technological infrastructure and commitment to robust data security. While no formal policy has been rolled out by the Indian Government yet, with the rapid rise of demand of data centres in India, it can be expected that the Indian Government may come up with a draft policy soon for setting up data embassies in India.

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