

August 29, 2023

Crest Digital Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based - Overdraft	10.00	20.00	[ICRA]AA+ (Stable); reaffirmed/assigned
Long term fund based - Term loan	161.97	225.3	[ICRA]AA+ (Stable); reaffirmed/assigned
Long term non-fund based - Bank guarantee	25.00	57.00	[ICRA]AA+ (Stable); reaffirmed/assigned
Long term - Unallocated	2.29	0.00	-
Total	199.26	302.30	

*Instrument details are provided in Annexure-I

Rationale

The rating for the bank facilities of Crest Digital Private Limited (CDPL) takes into account its strong parentage by virtue of being a subsidiary of Brookfield-owned infrastructure investment trust (InvIT) - Data Infrastructure Trust (DIT) - which lends exceptional financial flexibility to the company. The rating also factors in the consistent growth in operations, demonstrated by the healthy addition in the number of sites in both in-building solutions (IBS) and small cells (SC). The rating also factors in CDPL's strong presence at some major institutional sites like metros, airports, big commercial establishments, etc, which have healthy revenue potential; the company has also secured new metro projects. These translate into healthy cash flows from operations. ICRA expects the company to continue to report a healthy growth in operating income with steady profitability, going forward.

The rating derives comfort from the inherent business strength as infrastructure is the backbone of the telecom services industry and it is expected that small cell sites will grow exponentially to support 5G deployment, resulting in healthy demand prospects. The rating also factors in the relatively low payback period for the site capex vis-à-vis the long lock-in period with the telecom operators. The business model of the infrastructure providers lends stability to the cash flows from existing customers, given the lock-ins, committed rentals and exit penalties, resulting in healthy cash flow generation. This has translated into a comfortable financial profile for the company, as indicated in the healthy profitability and cash flow generation.

ICRA, however, has also taken note of the relatively small scale of operations and the capital-intensive operations, necessitating constant investment in network for the expansion of the sites. The debt levels are expected to increase, going forward, as the entire capex will be debt funded and the company will be mandated to distribute dividends, leading to a moderation in the leverage and coverage metrics. However, the leverage and coverage metrics are expected to be comfortable.

Overall, risks and concerns emanate from the stress in the telecom industry (which is the sole customer). Nevertheless, the business derives strength from the inherently high client stickiness, given the challenges in network reorganisation as well as the master service agreements (MSAs) with the telcos.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to demonstrate a healthy growth in terms of expansion of sites, translating into comfortable cash flow generation.

Key rating drivers and their description

Credit strengths

Strong parentage of Data Infrastructure Trust, which is backed by Brookfield Asset Management – Data infrastructure Trust, which is a Brookfield-owned InvIT whose primary asset is Summit Digital Infrastructure Limited {rated [ICRA]AAA (Stable)}, acquired 100% shareholding of CDPL. Although CDPL contributes to only 2-3% of the InvIT's valuation as on March 31, 2023, it is strategically important to the InvIT and derives value from its presence in the small cells industry which has a long-term growth potential.

Inherent business strength and long-term growth potential, especially with 5G being officially launched - The business has inherent strengths of high client stickiness, given the five to seven-year MSAs with the telcos, which provide revenue visibility and allow exit penalties, annual rental escalation, steady upfront deposits and timely payments from tenants. Further, the infrastructure industry remains critical for the telecom service provider industry. With the advent of 5G, small cell sites are expected to grow exponentially, translating into healthy demand prospects for the company.

Exit penalties and lock-ins in MSAs provide revenue cushion - The MSAs signed between telcos and infrastructure providers have lock-ins, which provide committed revenue visibility over the lock-in period. The average committed lock-in period for the company is around five to six years as of now, which indicates healthy revenue visibility. Moreover, there are exit penalties, which cover for revenue loss on account of tenancy exits. Further, the payback period is 2.7 years and the contract with the telcos is quite long.

Healthy growth in number of sites and comfortable profitability - The total number of sites as of May 2023 was 3,597 against 1,898 in May 2022. The healthy growth in sites was led by the growth in small cells. The addition of sites and various tenders in the market resulted in a strong growth in revenues, leading to healthy cash accruals. The EBITDA for the previous fiscal stood at Rs. 87.4 crore from Rs. 54.3 crore in FY2022.

Credit challenges

Moderate scale of operations - CDPL added a lot of sites in the last two to three years, resulting in a healthy growth in turnover in FY2023. However, the scale of operations remains moderate, though growth is expected, going forward. Moreover, unlike the large scale of other infrastructure players with a telecom lineage, CDPL remains a smaller player.

Capex likely to be debt-funded; excess cash to be distributed as dividends to InvIT - CDPL has sizeable capex plans which are likely to be debt-funded. This is expected to moderate the leverage and coverage metrics, which are, however, likely to remain comfortable.

Liquidity position: Adequate

ICRA expects CDPL's liquidity to remain adequate amid the healthy cash accruals which are expected to be comfortable vis-à-vis the debt servicing. The company will be availing debt to fund its capex and after meeting these requirements, 90% of the net distributable cash flow will have to be distributed as dividends to the InvIT.

Rating sensitivities

Positive factors – The rating can be upgraded if the entity demonstrates a consistent and strong growth in turnover, along with an improvement in profitability and debt protection metrics.

Negative factors – The rating can be downgraded in case of a decline in revenue or a material decline in profitability. Further, a sizeable debt-funded capex materially impacting the company's liquidity position and credit metrics can lead to a downgrade. Moreover, weakening in the credit quality of DIT can lead to rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group support	Parent Company: Data Infrastructure Trust ICRA expects CDPL's parent to be willing to extend financial and operational support to it, if required, given the strategic importance of CDPL to the InvIT
Consolidation/Standalone	Standalone

About the company

Crest Digitel Private Limited, incorporated in April 2016, is a neutral host provider (IP-1) deploying digital indoor solutions by providing 2G/3G/4G network through a common shared infrastructure. The company is mainly in the business of owning and operating shared in-building communications infrastructure, which is used by wireless carriers, broadcasters and other communications companies to provide services to end users.

The company offers solutions, including built-to-suit IBS (in-building solution), advanced SISO/MIMO solutions, outdoor cell sites, outdoor small cell solution, etc. With changing data usage patterns and rapid technological evolution, MNOs would require support to offer high quality voice and mobile broadband services through an IBS DAS network (distributed antenna sSystem), fibre backhaul, small cells and Wi-Fi offload. In this context, the company is offering solutions and working closely with the ecosystem of MNOs, technology partners and retail & institutional clients.

Key financial indicators (audited)

CDPL Standalone	FY2022	FY2023
Operating income	166.2	248.2
PAT	18.5	27.6
OPBDIT/OI	32.6%	35.2%
PAT/OI	11.1%	11.1%
Total outside liabilities/Tangible net worth (times)	2.74	3.36
Total debt/OPBDIT (times)	1.23	2.24
Interest coverage (times)	3.94	4.66

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 29, 2023	Sep 09, 2022	Jan 14, 2022	-
1 Long term fund-based - Term loan	Long-term	225.3	115.16	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A-*	NA
2 Long term fund-based - Overdraft	Long-term	20.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A-*	NA
3 Long term non-fund based - Bank guarantee	Long-term	57.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]A-*	NA
4 Long term - Unallocated	Long-term	0.00	-	-	[ICRA]AA+ (Stable)	[ICRA]A-*	NA

* Under Watch with Positive Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based - Overdraft	Simple
Long term fund-based - Term loan	Simple
Long term non-fund based - Bank guarantee	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long-term fund-based - Overdraft	-	-	-	20.00	[ICRA]AA+ (Stable)
-	Long-term fund-based - Term loan-	FY2023	9%	FY2029	225.3	[ICRA]AA+ (Stable)
-	Long term non-fund based - Bank guarantee	-	-	-	57.00	[ICRA]AA+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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