October 25, 2024

Crest Digitel 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	20.00	20.00	[ICRA]AA+ (Stable); reaffirmed
Long term fund based - Term loan	225.30	279.29	[ICRA]AA+ (Stable); reaffirmed and assigned for enhanced amount
Long term non-fund based - Bank guarantee	57.00	57.05	[ICRA]AA+ (Stable); reaffirmed and assigned for enhanced amount
Total	**302.30**	**356.34**	

**Instrument details are provided in Annexure-I*

Rationale

The rating for the bank facilities of Crest Digitel Private Limited (CDPL) takes into account its strong parentage by virtue of being a subsidiary of Brookfield-owned infrastructure investment trust (InvIT) – Altius Telecom Infrastructure Trust (ATIT; earlier Data Infrastructure Trust or DIT) - which lends exceptional financial flexibility to the company. The rating 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 strong revenue potential and healthy profitability; 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 small cell sites are expected to 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, takes note of the relatively small scale and 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 upstream surplus cash generation to the Invit that would moderate the leverage and coverage metrics to some extent. However, the leverage and coverage metrics are expected to remain comfortable.

Overall, there are risks and concerns from stress in the telecom industry. 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 site expansion, 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 – Altius Telecom Infrastructure Trust, which is a Brookfield-owned InvIT whose primary asset is Summit Digitel Infrastructure Limited {rated [ICRA]AAA (Stable)}, had acquired 100% shareholding in CDPL. Although CDPL contributes to only 2-3% of the InvIT's valuation as on March 31, 2024, 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 long term 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 providers. 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 healthy 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 June 2024 was 5,569 against 3,597 in May 2023. The healthy increase 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.

Credit challenges

Moderate scale of operations - CDPL has added a lot of sites in the last two to three years, resulting in a healthy growth in turnover in FY2024. However, the scale of operations remains moderate, with continued growth expected, going forward. Moreover, unlike the large scale of other infrastructure players with 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.

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 if the revenue falls or if there is a material decline in profitability. Further, a sizeable debt-funded capex materially impacting the company's liquidity position and credit metrics can result in a downgrade. Moreover, a weakening of the credit quality of ATIT can trigger a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Telecom towers](#)
Parent/Group support	Parent Company: Altius Telecom Infrastructure Trust (earlier 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)

	FY2023	FY2024
Operating income	248.0	368.1
PAT	27.6	12.3
OPBDIT/OI	35.3%	26.5%
PAT/OI	11.1%	3.4%
Total outside liabilities/Tangible net worth (times)	3.4	4.5
Total debt/OPBDIT (times)*	2.2	3.7
Interest coverage (times)*	4.7	3.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
** Total debt includes lease liabilities and interest also includes interest on lease liability. Excluding these from debt and interest, the total debt/OPBDIT would be 1.3x and 2.3x, while interest coverage would be 6.1x and 4.4x respectively for FY2023 and FY2024*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Oct 25,2024	Date	Rating	Date	Rating	Date	Rating
Long term – Overdraft – Fund-based	Long term	20.00	[ICRA]AA+ (Stable)	29-AUG-2023	[ICRA]AA+ (Stable)	09-SEP-2022	[ICRA]AA+ (Stable)	14-JAN-2022	[ICRA]A-*
Long term - Term loan – Fund-based	Long term	279.29	[ICRA]AA+ (Stable)	29-AUG-2023	[ICRA]AA+ (Stable)	09-SEP-2022	[ICRA]AA+ (Stable)	14-JAN-2022	[ICRA]A-*
Long term - Bank guarantee – Non-fund based	Long term	57.05	[ICRA]AA+ (Stable)	29-AUG-2023	[ICRA]AA+ (Stable)	09-SEP-2022	[ICRA]AA+ (Stable)	14-JAN-2022	[ICRA]A-*
Long term - Unallocated	Long term	-	-	-	-	09-SEP-2022	[ICRA]AA+ (Stable)	14-JAN-2022	[ICRA]A-*

*- 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
NA	Long-term fund-based - Overdraft	-	-	-	20.00	[ICRA]AA+ (Stable)
NA	Long-term fund-based - Term loan-	FY2023	9.1%	FY2029	279.29	[ICRA]AA+ (Stable)
NA	Long term non-fund based - Bank guarantee	-	-	-	57.05	[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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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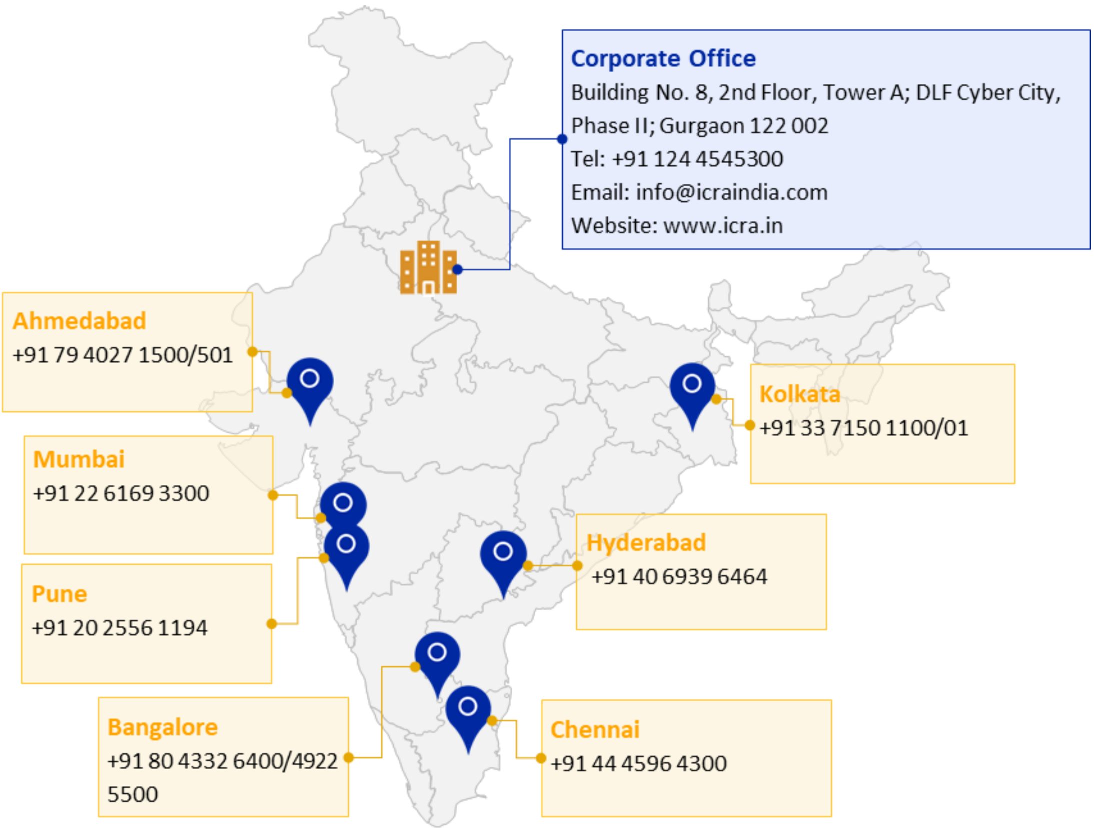

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