March 14, 2024

Digital Edge DC (India) Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	858.25	[ICRA]A- (Stable); assigned
Long-term – Non-fund based limits – Bank guarantee	10.00	
Long-term – Unallocated limits	1.75	
Total	**870.00**	

Instrument details are provided in Annexure I

Rationale

The assigned rating for Digital Edge DC (India) Private Limited (DEI) factors in the strong promoter profile with a track record of developing and managing large infrastructure and data centre (DC) projects. DEI is sponsored by DEI SG SPVII Pte. Ltd (50%, a Digital Edge group entity which is backed by Stonepeak), National Investment and Infrastructure Fund (NIIF, 45%) and IDCCO Pte. Ltd. (5%, backed by AGP Sustainable Real Assets). Stonepeak is an alternate investment firm specialising in infrastructure and real estate assets with $61 billion of assets under management (AUM) and has investments in DCs in US and Asia markets with operational capacity of around 200 MW and significant under-construction/future expansion plans. NIIF is an investment platform anchored by the Government of India, which manages funds with investments in different asset classes and diversified sectors. NIIF manages over USD 4.9 Billion of equity capital commitments across its various funds. The key management personnel of Digital Edge Asia DC platform and DEI have around two decades of experience in construction and managing operations of DCs. The company has currently started construction of the first phase of the BOM campus (BOM 1 DC), with a 15-MW capacity at a total project cost of Rs. 1,395 crore[1] which is estimated to be funded through debt-to-equity ratio of 62: 38. Around Rs. 165 crore of equity has been infused for the first phase of the BOM campus and the balance equity is expected to be infused as per capex phasing. The first phase of the BOM campus is likely to start operations from FY2026 in a phased manner. The rating considers the strong long-term demand prospects for DC's, backed by digital data explosion in India and favourable regulatory support.

These strengths are, however, partially offset by the exposure of the first phase of the BOM campus to execution risk as it is currently in the nascent stages of construction. The project remains exposed to high market risks, given that there are nil pre-leasing tie-ups as on date. Further, the estimated capital cost per MW for the first phase of the BOM campus is relatively higher compared to the benchmark cost due to factors such as higher power infrastructure costs and flexibility to cater clients with artificial intelligence (AI) based requirements. Consequently, the breakeven occupancy remains high for the first phase of the BOM campus. Any delay in tying-up of leases at adequate rates would adversely impact the debt protection metrics and would remain key monitorable. However, comfort can be drawn from the sponsors' commitment to infuse additional contribution to as per sanctioned debt terms towards operational shortfall and debt servicing till operations are stabilised post COD, ballooning repayment schedule of the loan and experience of Stonepeak and Digital Edge in dealing with hyperscalers and large corporates globally. While DEI's data centre park could reach an ultimate capacity of 300+ MW to be developed over a period of the next seven to ten years over multiple phases, currently, the company is constructing the first phase of the BOM campus of 15 MW for which the debt has been tied up and subsequent phase of around 40 MW will commence in next 12 months. The capex is expected to be funded through debt: equity of 62:38. The company's ability to ramp-up utilization of DCs along with healthy profitability and RoCE remains to be seen. The company also faces heightened competition from large DC additions

[1] *Total project cost includes hard cost, land & sitewide cost, interest during construction, DSRA and contingency cost*

from established players such as NTT Global Data Centers, CtrlS Datacenters, STT Global Datacenters and Sify. The competition is likely to further intensify with entry of new players in the segment.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company would be able to achieve adequate leasing progress before the commencement of debt repayments benefitting from the healthy demand prospects for the sector and strong sponsor profile who are expected to provide operational and financial support, basis their commitment.

Key rating drivers and their description

Credit strengths

Strong sponsor profile and experience of Stonepeak and Digital Edge in DC segment – DEI is sponsored by DEI SG SPVII Pte. Ltd (50%, a Digital Edge group entity which is backed by Stonepeak), National Investment and Infrastructure Fund (45%, NIIF) and IDCCO Pte. Ltd. (5% backed by AGP Sustainable Real Assets). Stonepeak is an alternate investment firm specialising in infrastructure and real estate assets with $61 billion of AUM and has investments in DCs in US and Asia markets with operational capacity of around 200 MW and significant under-construction/future expansion plans. NIIF is an investment platform anchored by the Government of India, which manages funds with investments in different asset classes and diversified sectors. NIIF manages over USD 4.9 Billion of equity capital commitments across its various funds. The key management personnel of Digital Edge Asia DC platform and DEI have around two decades of experience in construction and managing operations of DCs.

Low funding risk for the first phase of the BOM campus – The company has currently started construction of the first phase of the BOM campus (BOM 1 DC), with a 15-MW capacity at a total project cost of Rs. 1,395 crore which is estimated to be funded through debt-to-equity ratio of 62: 38. Around Rs. 165 crore of equity has been infused for the first phase of the BOM campus and the balance equity is expected to be infused as per capex phasing. The first phase of the BOM campus is likely to start operations from FY2026 in a phased manner.

Digitisation and favourable regulations support long-term prospects of DC – Data localisation and data explosion are paving the way for DC revolution in India. Digitisation drivers like adoption of new technologies (Cloud, IoT, generative AI, Big Data and 5G rollout), increase in digital penetration (internet usage, mobile penetration), e-commerce, Government focus on digital infrastructure and favourable regulatory policies like Digital Data Protection Bill, infrastructure status to data centres, special incentives from Central and state governments are expected to boost DC investments in the country and demand for the sector.

Credit challenges

Exposure to project execution and market risks – The first phase of the BOM campus is exposed to execution risk as it is currently in the nascent stages of construction. The project remains exposed to high market risks, given that there are nil pre-leasing tie-ups as on date. Any delay in tying-up of leases at adequate rates would adversely impact the debt protection metrics and would remain key monitorable.

High capital cost and break-even occupancy - The estimated capital cost per MW for the first phase of the BOM campus is relatively higher compared to the benchmark cost due to factors such as higher power infrastructure costs and flexibility to cater clients with artificial intelligence (AI) based requirements. Consequently, the breakeven occupancy remains high for the first phase of the BOM campus. However, comfort can be drawn from the sponsors' commitment to infuse additional contribution to as per sanctioned debt terms towards operational shortfall and debt servicing till operations are stabilised post COD, ballooning repayment schedule of the loan and experience of Stonepeak and Digital Edge in dealing with hyperscalers and large corporates globally.

Large medium-term capex plans – While DEI's data centre park could reach an ultimate capacity of 300+ MW to be developed over a period of the next seven to ten years over multiple phases, currently, the company is constructing the first phase of the

BOM campus of 15 MW for which the debt has been tied up and subsequent phase of around 40 MW will commence in next 12 months. The capex is expected to be funded through debt: equity of 62:38. The company's ability to ramp-up utilization of DCs along with healthy profitability and RoCE remains to be seen.

Liquidity position: Adequate

The company's liquidity position is adequate. The project cost of the first phase of the BOM campus is estimated to be funded by debt-to-equity ratio of 62: 38. The debt has been sanctioned and the first draw down is likely to be done in March/April 2024 and the repayments are to start from September 2027. Around 31% equity has been infused till February 2024 and the balance is expected to be infused as per the capex phasing.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a significant ramp-up in leasing at adequate rates resulting in healthy debt protection metrics on a sustained basis. Specific credit metric that could lead to a rating upgrade include 85% leasing on BOM 1.

Negative factors – Negative pressure on the rating could arise if there are material cost or time overruns in project completion. Further, considerable delay in leasing leading to subdued rentals resulting in weakening of debt protection metrics, on a sustained basis may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty- Lease Rental Discounting (LRD)
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Digital Edge DC (India) Pvt Ltd (DEI) is a joint venture company established by DEI SG SPVII Pte Ltd (50%, a Digital Edge group entity which is backed by Stonepeak), NIIF (45%) and IDCCO Pte Ltd (5%). DEI's first project in India is a greenfield 300+ MW data centre campus on a 47-acre freehold land parcel in Navi Mumbai. The project would be completed in multiple phases. The construction of the first phase of the BOM campus has started and is expected to become operational in a phased manner from FY2026 onwards. The total cost for the first phase of the BOM campus is likely to be ~ Rs. 1,395 crore which will be funded by debt: equity ratio of 62:38.

Stonepeak has committed $1.05 billion funds to their Data Centre platform in Asia, which is being managed by the Digital Edge group which operates data centres in various countries like Japan, Korea, Philippines, Indonesia etc.

NIIF is an investment platform anchored by the Government of India, which manages funds with investments in different asset classes and diversified sectors with AUM of over USD 4.9 billion.

AGP Sustainable Real Assets is a global real estate and infrastructure developer that has been operating in India since 2005. In India AGP has developed/currently developing projects with a combined total of more than 50 million square feet across IT tech parks, residential communities and logistics warehousing, in addition to 1 gigawatt (GW) of renewable energy.

Key financial indicators

Not applicable being a project-stage company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 14, 2024	-	-	-
1	**Term loans**	Long term	858.25	*	**[ICRA]A- (Stable)**	-	-	-
2	**Non-fund based limits – Bank guarantee**	Long term	10.00	-	**[ICRA]A- (Stable)**	-	-	-
3	**Unallocated limits**	Long term	1.75	-	**[ICRA]A- (Stable)**	-	-	-

*****company is yet to draw down the loan*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-fund based limits – Bank guarantee	Very Simple
Long-term – Unallocated limits	Not applicable

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	**Term loan**	FY2024	NA	FY2040	858.25	[ICRA]A- (Stable)
NA	**Bank guarantee**	NA	NA	NA	10.00	[ICRA]A- (Stable)
NA	**Unallocated limits**	NA	NA	NA	1.75	[ICRA]A- (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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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