March 31, 2024

NTT Global Data Centers & Cloud Infrastructure India Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1,250.6	2,372.8	[ICRA]AA+ (Stable); reaffirmed/assigned for enhanced amount
Working capital facilities	705.0	855.0	[ICRA]A1+; reaffirmed/assigned for enhanced amount
Non-fund based limits	22.0	22.0	[ICRA]A1+; Reaffirmed
Commercial paper	1,500.0	1,500.0	[ICRA]A1+; Reaffirmed
Proposed term loans	0.0	227.8	[ICRA]AA+ (Stable); Assigned
Total	**3,477.6**	**4,977.6**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings reflects the strong parentage of NTT Global Data Centers & Cloud Infrastructure India Private Limited (NTT GDC India), a wholly-owned step-down subsidiary of Nippon Telegraph and Telephone Corporation (NTT), rated by Moody's at A1(Negative). NTT is a leading integrated Japanese telecom operator with the Government of Japan holding about 34.7% (as on December 31, 2023) stake in the company. NTT GDC India has a long and established track record of funding support from NTT. NTT Limited (London), a wholly-owned step-down subsidiary of NTT, has extended corporate guarantee for NTT GDC India's borrowings from the Indian lenders. NTT GDC India's operations draws strong synergies from NTT's global data centre (DC) and has senior representatives from NTT on its board of directors highlighting its importance for the Group's global operations.

The company witnessed a robust growth in the consolidated operating income (OI) at a CAGR of ~25% (FY2019 – FY2023) to Rs. 2,258.3 crore in FY2023, driven by improved capacity utilisation of the existing and new DCs. Given the strong DC pipeline, the revenues are estimated to grow by 21-23% year-on-year (YoY) in FY2024 and 23-25% YoY in FY2025. With increase in revenues and better absorption of fixed costs, its operating margins stood at 39.0% in FY2023 and are expected to remain in the range of 38-40% in FY2024 and FY2025. The ratings draw comfort from the well-diversified clientele spread across different verticals, viz., communication, media, and technology, banking financial services and insurance (BFSI), telecommunication, etc, with top 10 customers contributing ~66% to the overall consolidated revenue in 9M FY2024. The large investments made by customers and the downtime risks associated with switching result in high customer stickiness, evident from the Group's long-term relationship with its large customers. The company has a stable annuity stream of inflows, wherein the customers enter medium-to-long-term service contracts with defined escalations. The ratings consider the strong long-term demand prospects for DCs, backed by digital data explosion in India and favourable regulatory support.

The strengths are, however, partially offset by the modest return on capital employed (RoCE) on account of continuous addition of DCs over the past few years as utilisation ramps up with a lag. ICRA expects the RoCE to improve in the medium term as the company is in the midst of a large capex programme. The ratings are constrained by the stiff competition from large DC additions with entry of many new players in the segment and expansion plans of the existing players. However, the long-term relationship with reputed clients, competitive pricing and strong technology support from NTT provide the NTT GDC Group a competitive advantage to some extent.

NTT GDC India is estimated to incur a capex of ~Rs. 2,300-2,400 crore in FY2024 and is undertaking a large debt-funded capex programme of around Rs. 1,900-2,100 crore in FY2025. The leverage, TD/OPBIDTA (excluding lease liabilities), is likely to remain high at around 5.5 times as of March 2025 against 6.5 times as of December 2023, consequently impacting the debt coverage metrics. While the debt tenure has increased for new sanctions, the overall tenure remains moderate. This coupled with longer ramp-up phase of the DC business may exert pressure on the coverage metrics in the near to medium term. However, ICRA derives strong comfort from the company's parentage, which provides high financial flexibility and refinancing ability.

The Stable outlook on NTT GDC's rating reflects ICRA's opinion that the company will continue to maintain optimal capacity utilisation in operational DCs with healthy ramp-up in upcoming DCs resulting in an improvement in its earnings and liquidity position.

Key rating drivers and their description

Credit strengths

Reputed and diversified clientele with high customer stickiness and stable annuity stream of inflows – The Group has a well-diversified clientele spread across different verticals viz. communication, media and technology, BFSI, telecommunication, etc, with top 10 customers contributing ~66% to the overall consolidated revenue in 9M FY2024. The large investments made by customers and the downtime risks associated with switching result in high customer stickiness in the DC business, evident from the Group's long-term relationship with its customers. It has a stable annuity stream of inflows, wherein the customers enter into medium-to-long-term service contracts with defined escalations. The company witnessed a robust growth in the consolidated operating income (OI) at a CAGR of ~25% (FY2019 – FY2023) to Rs. 2,258.3 crore in FY2023 on the back of improvement in capacity utilisation of the existing and new DCs. Given the strong DC pipeline, the revenues are estimated to grow by 21-23% year-on-year (YoY) in FY2024 and 23-25% YoY in FY2025. With increase in revenues and better absorption of fixed costs, its operating margins stood at 39.0% in FY2023 and are expected to remain in the range of 38-40% in FY2024 and FY2025.

Strong parentage with demonstrated track record of funding support – NTT GDC India is a wholly-owned step-down subsidiary of NTT, rated by Moody's at A1(Negative). NTT is a leading integrated Japanese telecom operator with the Government of Japan holding about 34.7% (as on December 31, 2023) stake in the company. NTT GDC India has a long and established track record of funding support from NTT. NTT Limited (London), a wholly-owned step-down subsidiary of NTT, has extended a corporate guarantee for NTT GDC India's borrowings from the Indian lenders. NTT GDC India's operations draws strong synergies from NTT's global DC and has senior representatives from NTT on its board of directors highlighting its importance for the Group's global operations.

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

Large debt-funded capex to exert pressure on credit metrics – NTT GDC India is estimated to incur a capex of ~Rs. 2,300-2,400 crore in FY2024 and is undertaking a large debt-funded capex programme of around Rs. 1,900-2,100 crore in FY2025. The leverage, TD/OPBIDTA (excluding lease liabilities), is likely to remain high at around 5.5 times as of March 2025 against 6.5 times as of December 2023, consequently impacting the debt coverage metrics. While the debt tenure has increased for new sanctions, the overall tenure remains moderate. This coupled with longer ramp-up phase of the DC business may exert pressure on the coverage metrics in the near to medium term. However, ICRA derives strong comfort from the company's parentage, which provides high financial flexibility and refinancing ability.

Continuous capex leading to modest return indicators – The company has continuously incurred large capex over the last three years. However, the utilisation of DCs happens with a lag, which led to modest RoCE at 11.0% in FY2023. ICRA expects the RoCE to improve in the medium term as it is in the midst of a large capex programme.

Stiff competition from other players – The ratings are constrained by the intense competition from large DC additions with entry of many new players in the segment and expansion plans from the existing players. However, the long-term relationship with reputed clients, competitive pricing and strong technology support from NTT provide the NTT GDC Group a competitive advantage to some extent.

Liquidity position: Adequate

The company's liquidity position is adequate with free cash and bank balance of Rs. 532.7 crore and cushion in CC limits of Rs. 148.1 crore as on December 31, 2023. It has debt repayment of Rs. 390.3 crore in FY2025, which can be serviced through its estimated cash flow from operations. The capex for FY2025 is projected to be around Rs. 1,900 – 2,100 crore and will be majorly debt funded, which is yet to be tied-up.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company achieves optimal capacity utilisation for the existing and new under-construction DCs resulting in sustainable improvement in earnings and liquidity position. Specific credit metrics that could lead to a rating upgrade include DSCR of more than 2.0 times on a sustained basis.

Negative factors – Negative pressure on the ratings may arise if there is a material deterioration in the credit profile or weakening of linkages with NTT. Further, higher-than-anticipated debt-funded capex and/or sustained lower utilisation levels of the new DCs resulting in weakening of NTT GDC's credit profile will be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting (LRD)
Parent/Group support	Parent Company: NTT Limited (UK), Ultimate Parent Company: Nippon Telegraph and Telephone Corporation (NTT). The ratings assigned to NTT GDC India factors in the likelihood of its ultimate parent, NTT, extending financial support to NTT GDC India through NTT Limited (UK) because of close business linkages between them. ICRA expects NTT to be willing to extend financial support to NTT GDC out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Given the strong managerial, financial, and operational linkages between NTT GDC and Netmagic Solutions Private Limited, ICRA has considered the consolidated financials of Netmagic Solutions Private Limited and NTT GDC.

About the company

NTT GDC India (formerly known as Netmagic IT Services Private Limited) was incorporated in 2005 and is fully owned by Netmagic Solutions Private Limited, a wholly-owned subsidiary of NTT Ltd (UK), which is 100% held by NTT Data Inc (Japan). NTT Data Inc is ultimately owned by Japan's Nippon Telegraph and Telephone Corporation (NTT rated by Moody's at A1 (Negative)), which is a global provider of information and communications technology (ICT) solutions within the NTT Group.

NTT GDC India provides DC co-location services, cloud services and dedicated hosting or managed services to customers across India. At present, it has 15 operational DCs across four locations – Mumbai (10), Noida (1), Chennai (1) and Bangalore (3).

Key financial indicators (audited)

NTT GDC India (Consolidated)	FY2022	FY2023
Operating income	1671.5	2258.3
PAT	184.3	174.7
OPBDIT/OI	36.5%	39.0%
PAT/OI	11.0%	7.7%
Total outside liabilities/Tangible net worth (times)	1.7	3.7
Total debt/OPBDIT (times)	4.6	7.9
Interest coverage (times)	5.2	2.9

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

Source: Company, ICRA Research

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 Feb 29, 2024 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
					Mar 31, 2024	Aug 11, 2023	May 12, 2023	May 06, 2022	Mar 03, 2022	Apr 30, 2021	July 13, 2020	Apr 3, 2020
1	**Term loans**	Long Term	2,372.8	2,425.9	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	**Working capital facilities**	Short term	855.0	239.3	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	**Non-fund based limit**	Short term	22.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	**Commercial paper**	Short term	1,500.0	300.0	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5	**Proposed term loans**	Long Term	227.8	-	**[ICRA]AA+ (Stable)**	-	-	-	-	-	-	-
6	**Unallocated limit**	Long Term	-	-	-	-	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Working capital facilities	Simple
Non-fund based limit	Very simple
Commercial paper	Very simple
Proposed term loans	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	**Term loan**	FY2019-FY2023	6.9-9.6%	FY2026-FY2031	2,372.8	[ICRA]AA+ (Stable)
NA	**Working capital facilities**	-	-	-	855.0	[ICRA]A1+
NA	**Non-fund based limits**	-	-	-	22.0	[ICRA]A1+
INE613R14159	**Commercial paper**	June 22, 2023	-	June 20, 2024	150.0	[ICRA]A1+
*****	**Commercial paper**	-	-	-	1,350.0	[ICRA]A1+
NA	**Proposed term loans**				227.8	[ICRA]AA+ (Stable)

*Source: Company; *Unplaced as on March 26, 2024*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Netmagic Solutions Private Limited (NSPL)	*	Full Consolidation

**NSPL holds 100% stake in NTT GDC India*

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About ICRA Limited:

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