

March 03, 2022

## NTT Global Data Centers & Cloud Infrastructure India Private Limited: [ICRA]A1+ assigned to enhanced Rs. 630.00 crore commercial paper programme; ratings reaffirmed for existing commercial paper programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	1,867.28	1,867.28	[ICRA]AA+(Stable); Outstanding
Fund-based – Working Capital Facilities	305.00	305.00	[ICRA]A1+; Outstanding
Non-fund Based Limits	22.00	22.00	[ICRA]A1+; Outstanding
Unallocated Limits	55.72	55.72	[ICRA]AA+(Stable); Outstanding
Commercial Paper	400.00	1,030.00	[ICRA]A1+; Rating reaffirmed/assigned;
<b>Total</b>	<b>2,650.00</b>	<b>3,280.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of short-term rating reflects the strong parentage of the NTT Global Data Centers & Cloud Infrastructure India Private Limited (NTT GDC Group), a wholly-owned step-down subsidiary of Nippon Telegraph and Telephone Corporation (NTT), rated by Moody's at A1 (Stable). NTT is a leading integrated Japanese telecom operator with Japan's Ministry of Finance holding about 34.33% (as on December 31, 2021) stake in the company. The NTT GDC Group has a long and established track record of funding support from NTT. The parent's commitment to NTT GDC can be gauged from the fact that it has in-principally approved to provide corporate guarantee for all outstanding and future external borrowings. NTT GDC's Indian operations draws strong synergies from NTT's global data centre and has senior representatives from NTT on its board of directors highlighting its importance for NTT's global operations.

The Group's consolidated operating income (OI) increased at a healthy CAGR of ~16.5% between FY2016 and FY2021, aided by rack additions with opening of new data centres in Mumbai (Maharashtra). Further, the overall utilisation of the existing data centers has increased, thereby improving the company's operating margin. The ratings draw comfort from the well-diversified clientele spread across different verticals, viz., information technology enabled services (IT and ITES), banking financial services and insurance (BFSI), telecommunication, etc, with top 10 customers contributing ~53% to the overall consolidated revenue in 9M FY2022. The large investments made by customers and the downtime risks associated with switching result in high customer stickiness in the data centres business, evident from the Group's long-term relationship with its customers. The company has a stable annuity stream of inflows, wherein the customers enter into medium-to-long-term service contracts with defined rates to utilise its data centers and related IT infrastructure services. Further, the demand for data centres has been improving since the Reserve Bank of India (RBI)'s regulation dated April 2018 on data localisation directing payment system operators to store all data, including full end-to-end transaction details, within India to ensure security of users' information.

The strengths are, however, partially offset by modest return on capital employed (ROCE) on account of continuous data centres addition over the past few years as utilisation ramps up with a lag. ICRA expects the RoCE to increase only gradually as the company remains in expansion mode. The rating also factors in the high competition from other established players such as ST Telemedia Global Data Centres, CtrIS Datacenters Limited (rated [ICRA]AA- (Stable)/A1+), Sify Technologies Limited (rated [ICRA]A+ (Stable)/A1+) However, the long-term relationship, competitive pricing and strong technology support from NTT provide the NTT GDC Group a competitive advantage to some extent.

ICRA notes that the Group is in the midst of a large debt-funded capex programme for its data centre expansion process. The leverage is likely to increase from TOL/TNW of 1.1 times as on March 31, 2021, to approximately 1.5 times as on March 31, 2022, consequently impacting the Group's debt coverage metrics. ICRA notes that some of these new data centres are expected to be housed under special purpose vehicles (SPVs) setup by NTT. As setting up the SPVs will take time, the Group has decided to raise funds at NTT GDC level as an interim measure to start the construction activity to meet the tight delivery commitments to its clients thereby pressurising the company's capital position. ICRA is given to understand that the company is currently exploring various funding options to finance its large capex requirement of around Rs 3,000 crore in FY2023 including raising long-term loans and/or equity from the parent Group as well as guaranteed debt by the parent entity. Its liquidity position remains comfortable, supported by undrawn bank lines of Rs. 140.7 crore and cash and liquid investment of Rs. 316.9 crore as on January 31, 2022. ICRA derives strong comfort from the company's parentage, which provides high financial flexibility and refinancing ability to the company.

## Key rating drivers and their description

### Credit strengths

**Strong parentage** – The NTT GDC Group is a wholly-owned step-down subsidiary of Nippon Telegraph and Telephone Corporation (NTT), rated by Moody's at A1 (Stable). NTT is a leading integrated telecom operator in Japan with Japan's Ministry of Finance holding about 34.33% (as on December 31, 2021) ownership in the company. The NTT GDC Group has a long and established track record of funding support from NTT. Furthermore, strong parentage provides high financial flexibility and refinancing ability to the company. NTT GDC's Indian operations draws strong synergies from NTT's global data centre and has senior representatives from NTT on its board of directors highlighting its importance for NTT's global operations.

**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. IT and ITES, BFSI, telecommunication, etc, with top 10 customers contributing ~53% to the overall consolidated revenue in 9M FY2022. The large investments made by customers and the downtime risks associated with switching result in high customer stickiness in the data centres business, evident from the Group's long-term relationship with its customers. The company has a stable annuity stream of inflows wherein the customers enter into medium to long term service contracts with defined rates to utilise its data centres and related IT infrastructure services.

**Favourable regulations support long-term prospects of data centre business** - The demand for data centres has been improving since the RBI's regulation dated April 2018 on data localisation directing payment system operators to store all data, including full end-to-end transaction details, within India to ensure security of users' information

### Credit challenges

**Continuous capex leading to modest return indicators** – The company has incurred continuous large capex over the last five years. However, the utilisation of the data centres happens with a lag, which led to modest return on capital employed at 6.9% in FY2021. ICRA expects the RoCE to increase only gradually as the company remains in a significant expansion mode.

**Large debt-funded capex** – The Group is in the midst of a large debt-funded capex programme for its data centre expansion process. The leverage is expected to increase from TOL/TNW of 1.1 times as on March 31, 2021, to approximately 1.5 times as on March 31, 2022, consequently impacting its debt coverage metrics. ICRA notes that some of these new data centres are expected to be housed under (SPVs) to be setup by NTT. As setting up the SPVs will take time, the Group has decided to raise funds at NTT GDC level, as an interim measure to start the construction activity to meet the tight delivery commitments to its clients, thereby pressurising the company's capital position. ICRA is given to understand that the company is currently exploring various funding options to finance its large capex requirement of over Rs. 3,000 crore in FY2023 including raising long-term loans and/or equity from the parent Group as well as guaranteed debt by the parent entity.

**Stiff competition from other players** – NTT GDC Group faces stiff competition from other established players such as ST Telemedia Global Data Centres, CtrlS Datacenters Limited and Sify Technologies Limited. However, the long-term relationship, competitive pricing and strong technology support from NTT provide the Group a competitive advantage to some extent.

## Liquidity position: Adequate

The company's liquidity position is adequate with unencumbered cash and bank balance of ~Rs. 70.6 crore and mutual fund investments of Rs. 245.6 crore as on January 31, 2022 and average fund-based utilisation (total limit of Rs. 305 crore) of ~47% for the period between April 2021 to January 2022 with an average cushion of ~Rs. 143 crore. The long-term debt repayment of Rs. 120.3 crore for FY2022 and Rs. 279.2 crore for FY 2023 is expected to be met through cash flow from operations. The capex for FY2023 is estimated to be at around Rs. 3,000 crore and is likely to be funded through a mix of external debt, fresh equity infusion and internal accruals.

## Rating sensitivities

**Positive factors** – The crystallisation of scenarios for a rating upgrade is unlikely over the medium term. Nevertheless, in case if the company achieves optimal capacity utilisation of the existing and new data centres under construction resulting in significant ramp up in revenues while improving its profitability, could be a positive trigger. Specific credit metrics that could lead to a rating upgrade include DSCR of more than 4.0 times and ROCE of more than 25% on a sustained basis. Significant equity infusion from the parent resulting in prepayment of debt could be a credit positive.

**Negative factors** – Negative pressure on the ratings may arise if higher-than-anticipated debt-funded capex or further elongation in receivable cycle weakens the coverage indicators or if there is sustained lower utilisation levels of new data centres and/or if there is weakening of linkages with NTT.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Information Technology Hardware-related Services Industry</a> <a href="#">Impact of implicit support expected from parent or group on an entity's credit rating</a>
Parent/Group Support	Parent Company: Netmagic Solutions Private Limited Ultimate Parent Company: Nippon Telegraph and Telephone Corporation (NTT) The rating assigned to NTT Global Data Centers & Cloud Infrastructure India Private Limited (NTT GDC ) factors in the likelihood of its ultimate parent, NTT, extending financial support to it 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 Global Data Centers & Cloud Infrastructure India Private Limited (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 Global Data Centers & Cloud Infrastructure India Private Limited (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 Communications Corporation (NTT Com). NTT Com, 100% held by Japan's Nippon Telegraph and Telephone Corporation (NTT-rated by Moody's at A1 (Stable)), is a global provider of Information and communications technology solutions (ICT) within the NTT Group. NMIT provides data centre co-location services, cloud services and dedicated hosting or managed services to

customers across India. It currently has 10 operational data centres across four locations – Mumbai (6), Noida (1), Chennai (1) and Bangalore (2). The company has a well-diversified customer base spread across different verticals, viz., IT and ITES, BFSI, telecommunication, etc. There has been a global restructuring underway for NTT companies. NTT GDC, which earlier reported to NTT Communication Corporation in Japan, started reporting to NTT Ltd. headquartered in London. NTT Ltd, has been hived off to create a global company, which will manage the global communication businesses of NTT, including all the globally acquired companies like Dimension Data, Netmagic, etc. A separate company was created as NTT wanted to segregate its Japanese and non-Japanese communication business. NTT GDC had a consolidated revenue of about Rs. 1,280.3 crore in FY2021 and nine months consolidated revenue of Rs. 1,182.4 crore for FY 2022.

### Key financial indicators (audited)

NTT GDCCIPL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	1,124.4	1,280.2
PAT (Rs. crore)	51.7	61.9
OPBDIT/OI (%)	29.7%	34.9%
PAT/OI (%)	4.6%	4.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.1
Total Debt/OPBDIT (times)	2.8	3.7
Interest Coverage (times)	8.8	5.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					March 03, 2022	April 30, 2021	July 13, 2020	April 3, 2020		
1	Term Loans	Long-term	1,867.28		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
2	Fund Based – Working Capital Facilities	Short term	305.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
3	Non-Fund Based Limit	Short term	22.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
4	Unallocated Limits	Long-term	55.72		[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
5	Commercial Paper	Short term	1,030.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
------------	----------------------

Long-term Fund-based – Term Loan	Simple
Fund Based – Working Capital Facilities	Simple
Non-Fund Based Limit	Simple
Unallocated Limits	Not applicable
Commercial Paper	Very 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 analyzing 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	June 2016	-	September 2021	5.03	[ICRA]AA+ (Stable)
NA	Term Loan-II	September 2016	-	November 2021	12.25	[ICRA]AA+ (Stable)
NA	Term Loan-III	December 2018	-	February 2027	200.00	[ICRA]AA+ (Stable)
NA	Term Loan-IV	December 2018	-	March 2026	200.00	[ICRA]AA+ (Stable)
NA	Term Loan-V	January 2019	-	September 2026	200.00	[ICRA]AA+ (Stable)
NA	Term Loan-VI	February 2020	-	March 2026	300.00	[ICRA]AA+ (Stable)
NA	Term Loan-VII	FY2021	-	FY2024	200.00	[ICRA]AA+ (Stable)
NA	Term Loan-VIII	FY2021	-	FY2026	250.00	[ICRA]AA+ (Stable)
NA	Term Loan-IX	Yet to be drawn down	-	Yet to be drawn down	500.00	[ICRA]AA+ (Stable)
NA	Fund Based – Working Capital Facilities	-	-	-	305.00	[ICRA]A1+
NA	Non-fund Based Limits	-	-	-	22.00	[ICRA]A1+
NA	Unallocated Limits	-	-	-	55.72	[ICRA]AA+ (Stable)
INE613R14068	Commercial Paper	September 09, 2021	-	September 06, 2022	100.00	[ICRA]A1+
INE613R14076	Commercial Paper	October 26, 2021	-	September 06, 2022	50.00	[ICRA]A1+
INE613R14084	Commercial Paper	December 03, 2021	-	November 28, 2022	150.00	[ICRA]A1+
INE613R14084	Commercial Paper	January 20, 2022	-	January 19, 2023	50.00	[ICRA]A1+
*	Commercial Paper	-	-	-	680.00	[ICRA]A1+

Source: Company

\*Unplaced

## Annexure-2: List of entities considered for consolidated analysis

Given the strong managerial, financial and operational linkages between NTT Global Data Centers & Cloud Infrastructure India Private Limited and Netmagic Solutions Private Limited, ICRA has considered the consolidated financials of Netmagic Solutions Private Limited and NTT Global Data Centers & Cloud Infrastructure India Private Limited.

## ANALYST CONTACTS

**Rajeshwar Burla**

+91 40 4067 6527

[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Ashish Modani**

+91 20 6606 9912

[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

**Jay Sheth**

+91 22 6114 3419

[jay.sheth@icraindia.com](mailto:jay.sheth@icraindia.com)

**Ashmeet Kour Tuteja**

91 22 6114 3400

[shmeet.tuteja@icraindia.com](mailto:shmeet.tuteja@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.