

May 06, 2022

NTT Global Data Centers & Cloud Infrastructure India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	1,867.28	1,729.50	[ICRA]AA+(Stable); reaffirmed
Working Capital Facilities	305.00	305.00	[ICRA]A1+; reaffirmed
Non-fund Based Limits	22.00	22.00	[ICRA]A1+; reaffirmed
Commercial Paper	1,030.00	1,030.00	[ICRA]A1+; reaffirmed
Unallocated Limit	55.72	0.00	-
Total	3,280.00	3,086.50	

*Instrument details are provided in Annexure-1

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 (Stable). NTT is a leading integrated Japanese telecom operator with the Government of Japan holding about 34.33% (as on March 31, 2022) stake in the company. NTT GDC India has a long and established track record of funding support from NTT. The parent's commitment to NTT GDC India can be gauged from the fact that it has principally approved to provide corporate guarantee from NTT Limited, which is a wholly owned step-down subsidiary of NTT, for the entire outstanding and future external borrowings. NTT GDC India's 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 the Group's global operations.

The company's consolidated operating income (OI) witnessed a healthy CAGR of ~21% during FY2017-FY2022, aided by opening of new data centres (DC) in Mumbai. Further, the overall utilisation of the existing data centres has increased, thereby improving the revenues and operating margins. The OI is expected to increase by 30%-35% year-on-year (YoY) in FY2023 with operating margins in the range of 37%-39%. 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 ~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, 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 into medium-to-long-term service contracts with defined escalable rates. Further, the demand for data centres has been improving since the Reserve Bank of India's (RBI) 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 addition of data centres over the past few years as utilisation ramps up with a lag. ICRA expects the RoCE to increase only in the medium term as the company remains in an expansion mode. The rating factors in the stiff competition from other established players such as ST Telemedia Global Data Centres, CtrlS 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.

NTT GDC India is undertaking a large capex programme of around Rs. 3000 crore in FY2023 and Rs. 1300-1350 crore during FY2024-FY2025 which will be entirely debt funded. The leverage is likely to increase from TOL/TNW of 1.8 times as on March 31, 2022, to around 2.5-2.6 times as on March 31, 2023, consequently impacting the company's debt coverage metrics. While the debt tenure has increased for new sanctions; the overall tenure remains moderate. This coupled with moderate gestation period of data center business may exert pressure on the coverage metrics. However, ICRA derives strong comfort from the company's parentage, which provides high financial flexibility and refinancing ability to the company. ICRA notes that some of the new data centres may get transferred to special purpose vehicles (SPVs) outside India thereby reducing the capex for the company.

Key rating drivers and their description

Credit strengths

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 (Stable). NTT, based in Japan, is a leading integrated telecom operator with Japan's Ministry of Finance holding about 34.33% (as on March 31, 2022) ownership in the company. NTT GDC India has a long and established track record of funding support from NTT. Furthermore, the strong parentage provides high financial flexibility and refinancing ability. 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 the Group'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. communication, media and technology, BFSI, 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 centre 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 escalable rates. The company's consolidated OI increased at a healthy CAGR of ~21% during FY2017-FY2022, aided by opening of new data centres in Mumbai. Further, the overall utilisation of the existing data centres has increased, thereby improving the revenues and operating margins. The OI is expected to increase by 30%-35% YoY in FY2023 with operating margins in the range of 37%-39%.

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 continuously incurred large capex over the last three years. However, the utilisation of the data centres happens with a lag, which led to modest return on capital employed at 10.9% in FY2022. ICRA expects the RoCE to increase only in the medium term as it remains in expansion mode.

Large debt-funded capex to exert pressure on credit metrics – NTT GDC India is undertaking a large capex programme of around Rs. 3000 crore in FY2023 and Rs. 1300-1350 crore during FY2024-FY2025 which will be entirely debt funded. The leverage is likely to increase from TOL/TNW of 1.8 times as on March 31, 2022, to around 2.5-2.6 times as on March 31, 2023, consequently impacting the company's debt coverage metrics. While the debt tenure has increased for new sanctions; the overall tenure remains moderate. This coupled with moderate gestation period of data center business may exert pressure on the coverage metrics. However, ICRA derives strong comfort from the company's parentage, which provides high financial flexibility and refinancing ability to the company. ICRA notes that some of the new data centres may get transferred to SPVs outside India thereby reducing the capex for the company.

Stiff competition from other players – The 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. 313.8 crore as on March 31, 2022. It has debt repayment of Rs. 278.8 crore in FY2023, which can be comfortably serviced through its estimated cash flow from operations. The average CC utilisation stood at 49% during April 2021 to March 2022, with cushion of ~Rs. 130 crore and peak utilisation of 57%. The capex for FY2023 is estimated to be at around Rs. 3,000 crore and will be entirely debt funded.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company achieves optimal capacity utilisation for the existing and new under-construction data centres resulting in sustainable improvement in earnings and liquidity position. This along with the possibility of transfer of DCs to SPVs outside India could result in a rating upgrade. Specific credit metrics that could lead to a rating upgrade include DSCR of more than 3.0 times on a sustained basis.

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

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology Hardware-related Services Industry Impact of implicit support expected from parent or group on an entity’s credit rating
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 Inc (Japan). NTT Inc, wholly owned 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.

NTT GDC India 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). There has been a global restructuring for NTT companies. NTT GDC India, which earlier reported to NTT Communication Corporation in Japan, started reporting to NTT Ltd., which is headquartered in London. NTT Ltd, has been hived off to create a global company, which will manage NTT’s global communication businesses, 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.

Key financial indicators

NTT GDC India Consolidated	FY2021	FY2022
	Audited	Provisional
Operating Income (Rs. crore)	1280.2	1665.3
PAT (Rs. crore)	61.9	204.1
OPBDIT/OI (%)	28.4%	35.8%
PAT/OI (%)	4.8%	12.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.8
Total Debt/OPBDIT (times)	4.7	4.7
Interest Coverage (times)	4.7	4.6

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

Source: NTT GDC India, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
				May 06, 2022	March 03, 2022	April 30, 2021	July 13, 2020	April 3, 2020	-
1 Term Loans	Long-term	1729.5	1729.5	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
2 Working Capital Facilities	Short term	305.00		[ICRA]A1+	[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+	[ICRA]A1+	-
4 Commercial Paper	Short term	1,030.0		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
5 Unallocated Limit	-	-		-	[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
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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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2019-FY2022	-	FY2024-FY2028	1729.5	[ICRA]AA+ (Stable)
NA	Working Capital Facilities	-	-	-	305.00	[ICRA]A1+
NA	Non-fund Based Limits	-	-	-	22.00	[ICRA]A1+
INE613R14068	Commercial Paper	September 09, 2021	-	September 06, 2022	100.00	[ICRA]A1+
INE613R14076	Commercial Paper	October 26, 2021	-	August 23, 2022	50.00	[ICRA]A1+
INE613R14084	Commercial Paper	December 03, 2021	-	November 28, 2022	150.00	[ICRA]A1+
INE613R14092	Commercial Paper	January 20, 2022	-	January 19, 2023	50.00	[ICRA]A1+
INE613R14100	Commercial Paper	March 11, 2022	-	March 8, 2023	200.00	[ICRA]A1+
*	Commercial Paper	-	-	-	480.00	[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.

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