October 28, 2022

NMDC Data Centre Private Limited: Provisional [ICRA]AA- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed non-convertible debentures (NCDs)	100.00	Provisional [ICRA]AA- (Stable); assigned
Total	**100.00**	

Rating in the absence of pending actions/documents	[ICRA]A+

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating for the proposed non-convertible debentures (NCDs) of NMDC Data Centre Private Limited (NMDC) factors in the strong track record of the Hiranandani Group with over four decades of experience in the real estate sector, including construction of large-scale IT buildings and data centres (DC). During 2012-2022, the Group has constructed four DCs for NTT Global Data Centers & Cloud Infrastructure India Private Limited (NTT) and forayed into DC development and management business in 2019. Further, the company benefits from tier-IV nature of the DCs, with 99.995% uptime, which enables NMDC to command premium pricing vis-à-vis DCs with lower tier structures. The large investments made by customers and the downtime risks associated with shifting results in high customer stickiness in the DC business. The demand for DCs is expected to increase, driven by the Government's initiatives such as Digital India, personal data protection bill, rapidly growing cloud computing, increasing internet penetration and adoption of new technologies (5G, IoT, etc). NMDC campus is the largest single location DC in India spread across two towers (NM1 – 30.4 MW and NM2 – 35.2 MW capacity) initially. The rating considers the structural features of the proposed NCDs, including interest service reserve account (ISRA of Rs. 150 crore, equivalent to around six months of interest obligation), 100% cash trap of surplus from the NM1 facility, escrow and defined cash waterfall mechanism, along with cap on additional debt[1], which provides comfort. Apart from ISRA, the company is likely to maintain healthy unencumbered cash balance of ~Rs. 300-325 crore by the end of FY2023, which is more than one year's interest expenses and may be utilised towards working capital requirements/interest obligations till operations are stabilised.

These strengths are, however, partially offset by moderate market risk, given that only 40% of the total NM1 capacity is leased as of September 2022. This risk is exacerbated due to NMDC's focus on the more profitable managed and cloud services, which requires tie-ups with a higher number of clients unlike co-location, wherein offtake from hyperscalers provides volumes. The company faces heightened competition from large DC additions from established players such as NTT, CtrlS Datacenters and STT Global Datacenters. However, ICRA is given to understand that the company is in advanced stages of discussions with several prospective tenants with an overall funnel of ~28 MW capacity, which is 1.6 times of the balance capacity to be tied up at NM1. Additionally, the strong demand prospects for DCs led by regulatory push, mitigates the risk to a large extent. The proposed NCDs of Rs. 3,100 crore will be utilised towards repayment of outstanding construction finance and lease rental discounting (LRD) loans, funding of residual cost towards digital infrastructure at NM1 and creation of ISRA. The debt structure of the proposed NCD issuance is moderate, with a bullet repayment at the end of 4 years, and call option available to the investors at the end of 36/42 months from date of allotment. However, considering the current ramp up in leasing along with strong funnel, ICRA expects the leverage position to remain comfortable with Net debt/NOI[2] at around 5.5 times even at 85%

[1] No further debt is to be availed till 79% lease tie-up is achieved for NM1

[2] Net Debt = Total Debt – unencumbered cash balance; Net operating income (NOI) is defined as lease rental income and maintenance income less maintenance, property tax, insurance and any other direct expenses associated with the property

leasing at the end of fourth year. With the expected comfortable leverage of NMDC and its strong parentage, ICRA also expects the proposed debt to be refinanced in a timely manner, thereby mitigating the refinancing risk. While the leverage at the end of 36 months (call option date for investor) will be relatively higher, the Hiranandani Group's exceptional financial flexibility, strong unencumbered liquidity and conservative capital structure provide comfort. Ability of NMDC to achieve adequate leasing tie-up (80% of NM1 capacity) at remunerative rates remains critical.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that NMDC will continue to benefit from the healthy demand prospects for DCs, strong leasing pipeline, and structural features of proposed debt instrument.

Key rating drivers and their description

Credit strengths

Strong promoter profile – The Hiranandani Group has a strong track record of four decades in the real estate sector including construction of large-scale IT buildings and DCs. During 2012 – 2022, the Group has constructed four DCs for NTT Global Data Centers & Cloud Infrastructure India Private Limited (NTT) and forayed into the DC development and management business in 2019. NMDC campus is the largest single location DC in India spread across two towers (NM1 – 30.4 MW and NM2 – 35.2 MW capacity) initially. The Group's strong unencumbered liquidity and conservative capital structure provides high financial flexibility.

Structural features on proposed NCD issuance – The proposed debt features include ISRA (Rs. 150 crore, equivalent to around six months of interest obligation), 100% cash trap of surplus from the NM1 facility, escrow and defined cash waterfall mechanism, along with cap on additional debt (no further debt is to be availed till 79% lease tie-up is achieved for NM1). Apart from the ISRA, the company is expected to maintain healthy unencumbered cash balance of ~Rs. 300-325 crore by the end of FY2023, which is more than one year of interest expenses and may be utilised towards working capital requirements/interest obligations till operations are stabilised.

Tier-IV DC services and high customer stickiness – The company provides tier-IV DCs, with 99.995% uptime, which enables it to command premium pricing vis-à-vis DCs with lower tier structures. The large investments made by customers and the downtime risks associated with shifting results in high customer stickiness in DC business.

Favourable regulations support long-term prospects of DC – The demand for DCs is expected to increase, driven by the Government's initiatives such as Digital India, personal data protection bill, rapidly growing cloud computing, increasing internet penetration and adoption of new technologies (5G, IoT, etc). This along with the fiscal incentives by the Central and state governments, infrastructure status to the sector will support the growth prospects.

Credit challenges

Exposure to market risks – The project remains exposed to moderate market risk, as only 40% of the total NM1 capacity is leased as of September 2022. This risk is exacerbated due to NMDC's focus on the more profitable managed and cloud services, which requires tie-ups are with a higher number of clients, unlike co-location services, wherein offtake from hyperscalers provides volumes. The company also faces heightened competition from large DC additions from established players such as NTT, CtrlS Datacenters and STT Global Datacenters. However, ICRA is given to understand that the company it is in advanced stages of discussions with several prospective tenants with an overall funnel of ~28 MW capacity, which is 1.6 times of balance capacity to be tied up at NM1. Additionally, strong demand prospects for DCs led by regulatory push, mitigates the risk to a large extent.

High leverage and moderate debt structure – The proposed NCDs of Rs. 3,100 crore will be utilised towards repayment of the outstanding construction finance and LRD loans, funding of the residual cost towards digital infrastructure at NM1 and creation of ISRA. The debt structure of the proposed NCD issuance is moderate with a bullet repayment at the end of four years, and call option available to the investors at the end of 36/42 months from the date of allotment. However, considering the current ramp-up in leasing along with strong funnel, ICRA expects the leverage position to remain comfortable with net debt/NOI[3] at around 5.5 times even at 85% leasing at the end of fourth year. With the expected comfortable leverage of NMDC and its strong parentage, ICRA expects the proposed debt to be refinanced in a timely manner, thereby mitigating the refinancing risk. NMDC's ability to achieve adequate leasing tie-up (80% of NM1 capacity) at remunerative rates remains critical.

Liquidity position: Adequate

The company's liquidity position is adequate. NMDC reported cash balance of Rs. 421.5 crore as on March 31, 2022, which may be utilised towards working capital requirements/interest obligations till the company's operations are stabilised. The residual capex towards digital infrastructure at NM1 stands at ~Rs. 1,009 crore, which is expected to be funded through debt. The proposed NCDs are likely to have ISRA of Rs. 150 crore (equivalent to around six months of interest obligation) created upfront till the interest coverage ratio reaches 1.25 times, post which three months of ISRA will be maintained during the tenure of the proposed facility.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if faster-than-expected ramp-up in leasing at adequate rates results in an improvement in leverage and debt coverage metrics. Specific credit metrics that could lead to a rating upgrade include Debt/NOI of less than 5.0 times on a sustained basis.

Negative factors – Negative pressure on the rating could arise if lower-than-expected leasing adversely impacts the cash flows, thereby weakening its liquidity position and refinancing ability. Further, any non-adherence to debt structure will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology ICRA's Policy on Assigning Provisional Ratings Rating Methodology for Debt Backed by Lease Rentals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

Pending actions/documents required to be completed for conversion of provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Execution of debenture trust deed
2. Execution of security trustee agreement
3. Creation of Interest Service Reserve Account (ISRA)
4. Execution of escrow agreement

[3] *Net operating income (NOI) is defined as lease rental income and maintenance income less maintenance, property tax, insurance and any other direct expenses associated with the property*

Validity of the provisional rating

In case the debt instrument/borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. Under no circumstances shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/documents nor the issuance is completed after one year of the assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

Promoted by the Hiranandani Group, Yotta Infrastructure Solutions LLP (YIS) is developing a 65.6-MW IT data center capacity in Panvel, Navi Mumbai under a special purpose vehicle (SPV) named NMDC Data Centre Pvt Ltd. (NMDC). The project is being developed in various phases and the first phase comprises two towers namely NM1 and NM2, having a capacity of 30.40 MW and 35.20 MW, respectively. As of September 2022, NM1 is fully completed and 40% leased, while NM2 is 22% constructed. As per the covenants of the proposed NCDs, once 79% leasing milestone in NM1 is reached, debt funding for the residual capex of NM2 will be undertaken. Mr. Darshan Hiranandani, the Chairman of Yotta Group (DC business), is on the board of NMDC.

Key financial indicators

NMDC was a project-stage company till FY2022 and KFI are not meaningful.

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 of Sep 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Oct 28, 2022	-	-	-
1	**Proposed NCDs**	Long term	100.00	-	**Provisional [ICRA]AA- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed NCDs	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Proposed NCDs***	NA	NA	NA	100.00	Provisional [ICRA]AA- (Stable)

*Source: Company; *yet to be placed*

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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