

August 26, 2024

STT Global Data Centres India Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated limits	3,500.00	[ICRA]AA+ (Stable); assigned
Total	3,500.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to STT Global Data Centres India Private Limited (STT GDC India) factors in the healthy rise in the consolidated operating income (OI) at a CAGR of 18% (FY2020 – FY2024) to Rs. 1,997.5 crore in FY2024, driven by improved capacity utilisation of the existing and ramp-up of the new data centres (DC). Given the strong contracting pipeline, the revenues are estimated to grow by 19-21% year-on-year (YoY) in FY2025 and FY2026. With increase in revenues and better absorption of fixed costs, its operating margins stood in the range of 40-45% (FY2020 – FY2024) and are expected to remain in the similar range in FY2025 and FY2026. The rating draws comfort from the reputed clientele spread across different verticals, viz., cloud service providers, communication, media, and technology, banking financial services and insurance (BFSI) etc, with top 10 customers contributing ~70% to the overall consolidated revenues in FY2024. STT GDC India is one of the major players in the Indian DC industry with capacity market share of 20%. The large investments made by customers and the downtime risks associated with switching result in high customer stickiness, evident from the healthy client retention. The company has a stable annuity stream of inflows, wherein the customers enter medium-to-long-term service contracts with defined escalations. The rating considers the strong long-term demand prospects for DCs, backed by digital data explosion in India and favourable regulatory support.

The rating also factors in the strong parentage by virtue of being a step-down subsidiary (74% shareholding) of STT GDC Pte. Ltd. (STT GDC) and an associate (26% shareholding) of Tata Communications Limited (TCL). STT GDC is a wholly owned step-down subsidiary of Temasek Holdings (Private) Limited (THPL, rated Moody's Aaa (Stable))¹ with a total operational DC capacity of around 1.6 GW across 7 countries. STT GDC India has an established track record of receiving funding support from its promoters, amounting to Rs. 2,028 crore towards equity commitments for the capex during FY2022-FY2024. Further, ICRA is given to understand that STT GDC will be willing to support STT GDC India's expansion plans and provide financial support, if need arises, towards cash flow mismatch (if any). Also, its operations draws strong synergies from STT's global data centre business and has senior representatives from STT GDC on its board highlighting its importance for the Group's global operations.

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. The company incurred large capex [amounting to ~Rs. 3,700 crore] over the last three years for setting up additional capacities, while the ramp-up in utilisation happens with a lag, resulting in subdued RoCE of 8% in FY2024. ICRA expects the RoCE to remain modest in the medium term as the company is in the midst of a large capex programme.

STT GDC India is estimated to incur a capex of ~Rs. 5,700 - 6,000 crore during FY2025-FY2027, which will be funded by a debt of around Rs. 2,800-3,000 crore and the balance through internal accruals/equity infusion. The leverage, total debt (including lease liabilities)/OPBIDTA, is likely to remain elevated at around 5.0 – 5.3 times as of March 2025 and March 2026 compared to 5.4 times as of March 2024. Considering the long tenure of the debt, the coverage metrics remain adequate with DSCR of

¹ THPL is an investment company founded in 1974 and is 100% owned by the Government of Singapore.

1.3-1.5 times in FY2025 and FY2026 compared to 1.6 times in FY2024. Further, ICRA derives strong comfort from the company's parentage, which provides exceptional financial flexibility. The rating is 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, long track record of operations, diversified presence across cities and the long-term relationship with reputed clients provide STT GDC India a competitive advantage to some extent.

The Stable outlook on STT GDC India rating reflects ICRA's opinion that the company will continue to maintain optimal capacity utilisation in operational DCs, along with healthy ramp-up in upcoming DCs, resulting in an improvement in its earnings, return indicators and maintain adequate debt coverage metrics.

Key rating drivers and their description

Credit strengths

Reputed clientele with high customer stickiness and stable annuity stream of inflows – STT GDC India has a reputed clientele spread across different verticals, viz., cloud service providers, communication, media, technology, BFSI, etc, with top 10 customers contributing ~70% to the overall consolidated revenues in FY2024. STT GDC India is one of the major players in the Indian DC industry with capacity market share of 20%. The large investments made by customers and the downtime risks associated with switching result in high customer stickiness, evident from the healthy client retention. The company has a stable annuity stream of inflows, wherein the customers enter medium-to-long-term service contracts with defined escalations.

Strong parentage with demonstrated track record of funding support towards capex – STT GDC India is a step-down subsidiary (74% shareholding) of STT GDC and an associate (26% shareholding) of TCL. STT GDC is a wholly owned step-down subsidiary of Temasek Holdings (Private) Limited with a total operational DC capacity of around 1.6 GW across 7 countries.

STT GDC India has an established track record of receiving funding support from its promoters, amounting to Rs. 2,028 crore towards equity commitments for the capex during FY2022-FY2024. Further, STT GDC will be willing to support STT GDC India's expansion plans and provide financial support, if need arises, towards cash flow mismatch (if any). Also, the company operations draw strong synergies from STT GDC's global data centre business and has senior representatives from STT GDC on its board highlighting its importance for the Group's global operations.

Digitisation and favourable regulations support long-term prospects of datacentres – 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 datacentres, special incentives from Central and state governments are expected to boost DC investments in the country and demand for the sector.

Credit challenges

Modest return indicators – The data centre business is highly capital intensive in nature. The company incurred large capex [amounting to ~Rs. 3700 crore] over the last three years for setting up additional capacities while the ramp-up in utilisation happens with a lag, resulting in subdued RoCE at 8% in FY2024. ICRA expects the RoCE to remain modest in the medium term as the company is in the midst of a large capex programme.

Large debt-funded capex to exert pressure on leverage metrics; favourable debt structure supports debt coverage metrics

– STT GDC India is estimated to incur a capex of ~Rs. 5,700-6,000 crore during FY2025-FY2027, which will be funded by a debt of around Rs. 2,800-3,000 crore and the balance through internal accruals/equity infusion. The leverage, total debt (including lease liabilities)/OPBIDTA, is likely to remain elevated at around 5.0 – 5.3 times as of March 2025 and March 2026 compared to 5.4 times as of March 2024. However, considering the long tenure of debt, the coverage metrics remain adequate with DSCR of 1.3-1.5 times in FY2025 and FY2026 compared to 1.6 times in FY2024. Further, ICRA derives strong comfort from the company’s parentage, which provides exceptional financial flexibility.

Stiff competition from other players - The company faces stiff competition from large DC additions with entry of many new players in the segment and expansion plans of the existing players. However, long track record of operations, diversified presence across cities and the long-term relationship with reputed clients provide STT GDC India a competitive advantage to some extent.

Liquidity position: Adequate

The company’s liquidity position is adequate with high cash and bank balance of Rs. 948.4 crore as on March 31, 2024. It has sanctioned fund-based limits of Rs. 145.0 crore which are unutilised for 12 months that ended in June 2024. STT GDC India has debt repayment of Rs. 248 crore in FY2025 which can be comfortably serviced through its estimated cash flow from operations. The capex for FY2025 is projected to be ~Rs. 2,500-2,600 crore and will be funded through a mix of proposed debt and internal accruals/equity infusion.

Rating sensitivities

Positive factors – The rating may be upgraded upon successful completion and commercialisation of the current capex (includes ongoing and upcoming capacity during FY2025-FY2027) by achieving healthy capacity utilisation resulting in significant improvement in revenues, earnings, RoCE 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 sustained material decline in utilisation of the existing DCs or lower utilization levels of the new DCs or higher-than-anticipated debt-funded capex resulting in weakening of STT GDC India’s debt protection metrics. Any deterioration in the credit profile or weakening of linkages with STT GDC 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: STT India DC Pte. Ltd (Ultimate Parent Company: STT GDC Pte Ltd (STT GDC)). The rating assigned to STT GDC India factors in the likelihood of its ultimate parent (STT GDC), extending financial support to STT GDC India through STT India DC Pte. Ltd because of close linkages and high strategic importance.
Consolidation/Standalone	Standalone

About the company

STT GDC India was incorporated in 2007 and is formerly known as Tata Communications Data Centers Private Limited. In 2016, STT GDC entered into a strategic partnership with TCL and acquired 74% stake in the Indian DC business. As of March 2024, 74% stake in STT GDC India is held by STT India DC Pte. Ltd., which is 100% held by STT GDC and the balance 26% stake is held by TCL. The company is involved in the business of providing co-location data centre services. It has presence across major cities in India.

Key financial indicators (audited)

STT GDC India	FY2023	FY2024
Operating income	1,823.4	1,997.5
PAT	164.0	107.7
OPBDIT/OI	45.1%	43.6%
PAT/OI	9.0%	5.4%
Total outside liabilities/Tangible net worth (times)	2.4	1.9
Total debt/OPBDIT (times)	4.8	5.4
Interest coverage (times)	3.1	2.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; 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 (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Aug 26, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Unallocated limits	Long Term	3,500	[ICRA]AA+ (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
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	Long-term – Unallocated limits	NA	NA	NA	3,500.00	[ICRA]AA+ (Stable)

Source: Company

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Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla

+91 40 6939 6443

rajeshwar.burla@icraindia.com

Anupama Reddy

+91 40 6939 6427

anupama.reddy@icraindia.com

Abhishek Lahoti

+91 40 6939 6433

abhishek.lahoti@icraindia.com

Hemanth Vasishta Attaluri

+91 40 6939 6419

vasishta.attaluri@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

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

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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