August 30, 2024

CtrlS Datacenters Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	1323.98	2151.51	[ICRA]AA- (Stable); reaffirmed/ assigned for enhanced amount
Long-term – Non-fund based – BG	100.00	125.00	[ICRA]AA- (Stable); reaffirmed/ assigned for enhanced amount
Long-term/short-term – Unallocated limits	226.02	223.49	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	**1650.00**	**2500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for CtrlS Datacenters Limited (CtrlS) factors in the expected sustained healthy growth in its scale of operations with new capacity additions and ramp-up of occupancy in the existing datacenters, driven by strong demand, while maintaining strong operating profitability and comfortable debt coverage metrics.

The company witnessed robust compounded annual growth rate (CAGR) of 24.4% (FY2019 –FY2024) in revenues to ~Rs. 1,339 crore in FY2024 on the back of rack capacity addition, improvement in capacity utilisation and rental escalations. The revenues are projected to grow by 25-30% each in FY2025 and FY2026 with expected doubling of the existing capacity to 180 MW by March 2026 from 90 MW as of March 2024. The operating margins moderated in FY2024 to 47.4% (PY:55.2%) due to significant increase in employee costs as it onboarded several senior staff in line with its growth plans. However, the operating margins are likely to improve and remain healthy in the range of 50-52% in the medium term, aided by incremental revenue growth and savings in power cost upon commercialisation of the captive solar power unit. Owing to debt-funded capex and lower operating profitability in FY2024, the leverage metric as measured by total debt (including lease liabilities)/EBITDA increased to 3.9 times (PY: 2.1 times) as on March 31, 2024. With expected ramp-up in revenues and profitability, the debt protection metrics are anticipated to remain comfortable with total debt/EBITDA in the range of 3.3-3.6 times and projected DSCR of 2.2-2.5 times in FY2025 and FY2026. Further, the company enjoys high financial flexibility, given that the current borrowings are lease rental discounted in nature against 40% of the rental inflows, thereby leaving adequate headroom to raise additional debt (if required) using the remaining 60% of the unencumbered rentals. The ratings factor in the reputed and diversified customer base across different verticals, large investments made by CtrlS' customers and the downtime risks associated with shifting, which ensures high customer stickiness in the data centre (DC) business, evident from its long-term relationships with the customers. 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 company's large capex plans in the medium term. CtrlS is expected to incur a capex of Rs. 3,000-3,500 crore during FY2025-FY2027, primarily towards setting up of DCs, solar power project for captive consumption and maintenance capex. This capex is likely to be funded by debt of 55-60% and the balance through internal accruals. Its ability to ramp-up utilisation of the new DCs, while maintaining healthy profitability and RoCE remains to be seen. 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, which could exert pressure on the operating margin of incremental business. However, long track record of operations, diversified presence across cities and the long-term relationship with reputed clients mitigates the risk to an extent. Although CtrlS has adequate insurance cover to handle any liabilities that may arise due to data loss and fire accidents, the company remains exposed to reputation risk.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to maintain optimal capacity utilisation in operational DCs, along with healthy ramp-up in the upcoming DCs resulting in an improvement in its earnings and maintain comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Sustained growth in scale of operations which is expected to continue in medium term – CtrlS witnessed healthy CAGR of 24.4% (FY2029-FY2024) in revenues to ~Rs. 1,339 crore in FY2024 on the back of rack capacity addition, improvement in capacity utilisation and rental escalations. The revenues are projected to grow by 25-30% each in FY2025 and FY2026 with expected doubling of the existing capacity to 180 MW by March 2026 from 90 MW as of March 2024. The operating margins for CtrlS moderated in FY2024 to 47.4% (PY:55.2%) due to significant increase in employee costs as it onboarded several senior staff in line with its growth plans. However, the operating margins are likely to improve and remain healthy in the range of 50-52% in the medium term, driven by incremental revenue growth and savings in power cost upon commercialisation of the captive solar power unit.

Healthy financial risk profile – The company has a healthy financial risk profile, characterised by comfortable debt protection metrics. Due to debt-funded capex and lower operating profitability in FY2024, the leverage metric as measured by total debt (including lease liabilities)/EBITDA increased to 3.9 times (PY: 2.1 times) as of March 2024. With expected ramp-up in revenues and profitability, the debt protection metrics are likely to remain comfortable with total debt/EBITDA in the range of 3.3-3.6 times, with projected DSCR of 2.2-2.5 times in FY2025 and FY2026. Further, the company enjoys high financial flexibility, given that the current borrowings are against 40% of the rental inflows, thereby leaving adequate headroom to raise additional debt (if required) using the remaining 60% of the unencumbered inflows.

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 DCs, special incentives from the Central and state governments are expected to boost DC investments in the country and demand for the sector.

Credit challenges

Large capex plans over medium term – During FY2025-FY2027, CtrlS is expected to incur a capex of Rs. 3,000-3,500 crore, primarily towards setting up of DCs, solar power project for captive consumption and maintenance capex. This capex is projected to be funded by debt of 55-60% and the balance through internal accruals. Its ability to ramp-up utilisation of new DCs, while maintaining healthy profitability and RoCE remains to be seen.

Stiff competition from other players – The company faces stiff competition from large DC additions with the entry of many new players in the segment and expansion plans of the existing players, which could exert pressure on the operating margin of incremental business. However, long track record of operations, diversified presence across cities and the long-term relationship with reputed clients mitigate the risk to an extent.

Exposure to reputation risk – ICRA notes that although CtrlS has adequate insurance cover to handle any liabilities that may arise due to data loss and fire accidents, the company remains exposed to reputation risk.

Liquidity position: Adequate

The company's liquidity position is adequate, with an unencumbered cash balance of Rs. 171.5 crore as on March 31, 2024. The debt repayment of Rs. 102 crore for FY2025 can be comfortably met through its estimated cash flow from operations. The capex for FY2025 is estimated to be ~Rs. 1,200-1250 crore, which is expected to be funded by a debt of Rs. 700-800 crore and the balance through internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a significant increase in revenues while maintaining robust profitability levels. Specific credit metrics that could lead to a rating upgrade include DSCR of more than 3.5 times on a sustained basis.

Negative factors – Negative pressure on the ratings may arise if there is steep decline in revenues and profitability or any higher-than-anticipated debt-funded capex or elongation in receivable cycle resulting in weakening of liquidity and coverage indicators. Specific credit metrics that could lead to a downgrade of ratings include Total Debt/EBITDA of more than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - (Lease Rental Discounting)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

CtrlS Datacenters Limited (CtrlS) was incorporated in 2008 and it is the first DC started in Hyderabad in 2009. The company provides infrastructure for dedicated hosting and co-location services to global and domestic customers. At present, the company has 15 operational data centres at 8 locations – Mumbai (5), Hyderabad (3), Noida, Chennai (2), Lucknow, Patna and Bengaluru. Of DCs, 14 are Tier IV, ensuring 99.995% availability. Its major customer segments are Hyperscalers, Enterprises, BFSI, e-commerce, Telecom companies, Government bodies, IT companies and other cloud service providers.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	1,121.3	1,339.0
PAT	289.8	209.6
OPBDIT/OI	55.2%	47.4%
PAT/OI	25.8%	15.7%
Total outside liabilities/Tangible net worth (times)	1.6	2.1
Total debt/OPBDIT (times)	2.1	3.9
Interest coverage (times)	7.1	4.1

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

	Current (FY2025)			Chronology of rating history for the past 3 years			
	Type	Amount Rated (Rs Crore)	Date & Rating in FY2025	Date and Rating in FY2024	Date and Rating in FY2023	Date and Rating in FY2022	
Instrument			Aug 30, 2024	May 11, 2023	Aug 29, 2022	June 18, 2021	May 24, 2021
Term loans	Long Term	2151.51	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
Non-fund based limits	Long Term	125.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
Unallocated limits	Long Term/ Short Term	223.49	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+	[ICRA]AA- (Stable)/[ICRA]A1+
Fund-based – Working capital facilities	-	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-fund based – BG	Very Simple
Long-term/short-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	**Term loans**	March 2020	NA	Dec 2036	2151.51	[ICRA]AA- (Stable)
NA	**Non-fund based facilities**	NA	NA	NA	125.00	[ICRA]AA- (Stable)
NA	**Unallocated loans**	NA	NA	NA	223.49	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

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

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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