

June 02, 2017

CtrlS Datacenters Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Term Loans	316.01	[ICRA]A(Stable) Assigned
Cash Credit	7.50	[ICRA]A(Stable) Assigned
Long-term/Short-term Fund based/Non Fund based	1.49	[ICRA]A(Stable)/[ICRA]A1 Assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]A (pronounced ICRA A) to the term loans of Rs.316.01 crore and cash credit limits of Rs.7.50 crore of CtrlS Datacenters Limited (“CtrlS” / “the company”)†. ICRA has assigned the long-term rating of [ICRA]A (pronounced ICRA A) and short term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 1.49 crore¹ fund-based limits / non-fund based limits of CtrlS.

Rationale

The assigned ratings reflect the strong financial profile of the company, characterised by robust growth in operating income, at a CAGR of 50% between FY2012 and FY2016; comfortable capital structure with gearing of 0.84 times as on March 31, 2017; and healthy coverage indicators with interest coverage ratio of 4.98 times, NCA/TD² of 29% and TD/OPBITDA of 2.22 times in FY2017. The company’s liquidity position is strong with good cushion in fund-based limits and liquid surplus of ~Rs.38 crore as on March 31, 2017. Access to liquid surplus along with favourable capital structure provides financial flexibility to CtrlS. The ratings also draw comfort from the company’s reputed and diversified customer base across different verticals, with top ten customers contributing to 31% of revenues in FY2016. CtrlS has total customer base of 921, with low attrition rate of less than 5%. The ratings also take into account the tier-IV nature of the data centres, with 99.995% uptime, which enables the company to command premium pricing vis-à-vis Data Center’s (DC) with lower tier structures. CtrlS has also received continuous equity infusion from M/s. AMIF re Investment XI Limited³ of Rs.140 crore till FY2017, enabling the company to augment its net worth. The ratings draw further strength from the strong track record of management in IT infrastructure space, with over two decades of experience in the industry.

The rating is, however, constrained by the high working capital intensity owing to elongated receivable cycle (111 days as on March 31, 2017) out of which the receivables outstanding for more than six months was ~30% of the total receivables. Also, return indicators are suppressed as the company remained in continuous capex mode over last five years with relatively low level of utilisation of its Mumbai data centre. The rating is also constrained by high competition from established players such as Singapore Tele (through acquisition of 74% stake in Tata Communications’ DC business), Sify etc. in the Co-location business and IBM, Accenture etc. in managed hosting services. However, high uptime of CtrlS DCs

¹ 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² NCA means Net Cash Accruals, TD means Total Debt, OPBDITA means Operating profit before depreciation, interest and taxes

³ M/s. AMIF re Investment XI Limited (AMIF) is a Mauritius based entity, belongs to Och-Ziff Capital Management Group head quartered in New York with assets under management of ~\$32 billion as on April 1, 2017.



provides competitive advantage to an extent. ICRA notes that although the company 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.

Going forward, CtrlS's ability to achieve break even for its newly setup Noida DC, ramp up utilisation levels for Mumbai DC, reduce its working capital cycle by timely collection of receivables and improve its operating margins is the key rating sensitivity. Also, reliance on further debt to fund the investments required for ramp-up of operations at existing DCs would be a key monitorable.

Key rating drivers

Credit strengths

- Strong track record of management in IT infrastructure space with over two decades of experience in the industry
- Established data centre hosting services provider with the highest tier structure (Tier-IV) guaranteeing 99.995% availability and three data centres spread across seismic zones (Mumbai Hyderabad, Chennai) and fourth DC at Noida planned to commence in Q1FY2018
- Reputed and diversified customer base across different verticals with top ten customers contributing to 31% of revenues in FY2016
- Strong financial profile characterized by growth in operating income at a CAGR of 50% between FY 2012 and FY 2016, comfortable capital structure with gearing of 0.84 times as on March 31, 2017 and healthy coverage indicators with interest coverage ratio of 4.98 times, NCA/TD of 29% and TD/OPBITDA of 2.22 times in FY 2017
- AMIF re Investment XI Limited, an affiliate of Och-Ziff Capital Management Group, head quartered in New York, invested Rs. 140 crore in CtrlS which enabled the company augment its net worth. CtrlS had liquid surplus amounting to Rs. 38.37 crore as on March 31, 2017. Access to liquid surplus and favourable capital structure provide strong financial flexibility to the company

Credit Weaknesses

- High working capital intensity owing to elongated receivable cycle. As on March 31, 2017, CtrlS has a receivable cycle of 111 days out of which the receivables outstanding for more than six months account for ~30%
- Return indicators are suppressed as the company remained in continuous capex over last five years; low level of utilisation of Mumbai data centre
- Competition from established players such as ST Telemedia (through acquisition of 74% stake in Tata Communications' DC business), Sify etc. in the Co-location business and IBM, Accenture etc. in managed hosting services
- Although the company is adequately covered with insurance to handle any liabilities that may arise due to data loss and fire accidents, the company remains exposed to reputation risk

Description of key rating drivers:

The ratings take into account the tier-IV structure of the data centers of CtrlS ensuring highest uptime and pricing power vis-à-vis DC's with lower tier structures. The promoters of the company have an operational track record of around two decades in the IT infrastructure space with over two decades of experience in the industry. The company has strong financial profile characterized by growth in operating income at a CAGR of 50% between FY 2012 and FY 2016, comfortable capital structure with gearing of 0.84 times as on March 31, 2017 and healthy coverage indicators with interest coverage ratio of 4.98



times, NCA/Debt of 29% and TD/OPBITDA of 2.22 times in FY 2017. The rating also considers strong liquidity position of the company with liquid surplus of ~Rs.38 crore as on March 31, 2017. Access to liquid surplus along with favorable capital structure provides financial flexibility to CtrlS. The rating also draws comfort from its reputed and diversified customer base across different verticals with top ten customers contributing to 31% of revenues in FY2016. CtrlS has total customer base of 921 with attrition rate of less than 5%. CtrlS has also received continuous equity infusion from M/s. AMIF re Investment XI Limited of Rs.140 crore till FY2017 enabling the company to augment its net worth.

The rating is, however, constrained by the high working capital intensity owing to elongated receivable cycle, reflected by receivable cycle of 111 days as on March 31, 2017 out of which the receivables outstanding for more than six months is 30% of the total receivables. Also, return indicators are suppressed as the company remained in continuous capex mode over last five years with total capex of ~Rs.399 crore and relatively low level of utilization of Mumbai data center at 35% in FY2017. The rating is also constrained by competition from established players like Singapore Tele (through acquisition of 74% stake in Tata Communications' DC business), Sify etc. in the Co-location business and IBM, Accenture etc. in managed hosting services. ICRA notes that although the company 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.

Links to applicable criteria:

Corporate Credit Ratings: A Note on Methodology
Rating methodology for issuers in the Information Technology (Hardware) Industry

About the company:

CtrlS Datacenters Limited was incorporated in the year 2008 with the first DC being started in Hyderabad in the year 2009 and Mumbai DC in the year 2013. The company also manages Chennai DC on revenue sharing model from 2016.

As per unaudited results, the company reported an operating income (OI) of Rs.213.66 crore and an operating profit of Rs.105.14 crore during 10M FY2017. CtrlS reported an OI and operating profit of Rs.220.83 crore and Rs.103.76 crore respectively in FY2016 as per audited financials.

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

Any other information: Not applicable.

Rating history for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
1	Fund based/Non Fund based	Long term/Short term	316.01	June 2017	-	-	-
				[ICRA]A (Stable)	-	-	-
2	Cash Credit	Long term	7.50	[ICRA]A (Stable)	-	-	-
3	Fund based/Non Fund based	Long term/Short term	1.49	[ICRA]A (Stable)/A1	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Crore)	Current Rating and Outlook
Term Loan	February, 2014	11.75% p.a.	November, 2024	47.29	[ICRA]A (Stable)
LRD Loan-1	April,2012	10.45% p.a.	July,2022	108.64	[ICRA]A (Stable)
LRD Loan-2	February, 2016	10.45% p.a.	March,2026	45.42	[ICRA]A (Stable)
LRD Loan-3	February, 2017	10.25% p.a.	March,2024	24.51	[ICRA]A (Stable)
LRD Loan-4	October, 2016	10.45% p.a.	October, 2026	10.15	[ICRA]A (Stable)
LRD Loan-5	March, 2017	10.45% p.a.	June,2027	80.00	[ICRA]A (Stable)
Cash Credit	-	11.70% p.a.	-	7.50	[ICRA]A (Stable)
Fund based /Non –fund based – Long term/Short term - cash credit	-	-	-	1.49	[ICRA]A(Stable)/A1

Source: Ctrl



Name and Contact Details of the Rating Analyst(s):

Analyst Contacts

Mr. K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Mr. Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Mr. Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Mr. Abhiram Varal

+91 40 4067 6523

abhiram.varal@icraindia.com

Name and Contact Details of Relationship Contacts:

Mr. Jayanta Chatterjee

+91 80 43324601

janantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500