

September 22, 2020

CtrlS (India) Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	170.00	170.00	[ICRA]BBB+(Stable); Reaffirmed
Long Term – Non fund Based		1.00	[ICRA]BBB+(Stable); Assigned
Total		171.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of CtrlS (India) Private Limited (CIPL) takes into account the long operational track record of the Group in datacenter (DC) business. Currently, the Group operates six tier-IV DCs at four locations in India under the Group's flagship company, CtrlS Datacenters Limited (CtrlS, rated [ICRA]A+(stable)/A1+). CtrlS has also provided shortfall undertaking to make good any shortfall in meeting CIPL's debt obligations and cost overrun. CIPL is setting up a 50 MW tier-IV datacenter in Mumbai, Maharashtra, adjacent to the existing datacenter of CtrlS, with a proposed capacity of 5000 racks in phase 1 of the project. The expected date of commencement of commercial operation of the project is June 30, 2021. The rating also takes into account the tier-IV nature of the DC, which enables the company to command a premium pricing. Further, demand for datacenters has been improving since 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.

The rating, nonetheless, remains constrained by the execution risks, given the very nascent stages of the project's construction; however, comfort can be taken from the extensive experience of the Group in executing datacenter projects. Till August 31, 2020, the company incurred Rs. 98.2 crore, which translates to 32.7% of the total cost, funded through promoter funds of Rs. 96.04 crore and debt of Rs. 2.16 crore. The construction progress has slowed down from March 2020 onwards because of disruption in construction activities and delay in getting requisite approvals due to the Covid-19 pandemic. The ability of the company to commission the project in a timely manner and within the budgeted costs would remain important from a credit perspective. Around 74% of the equity has been infused and the remaining Rs. 33.96 crore will be brought in by promoters during project execution. The rating is further constrained by the competition from other established players such as Netmagic IT Services Private Limited (rated [ICRA]AA+ (Stable)/A1+), STT Global Data Centres India Private Limited and Sify Technologies Limited (rated [ICRA]A+ (Stable)/A1+). ICRA notes that the company is in discussions with certain internationally reputed datacenters and some of the existing customers in its Mumbai DC under CtrlS for tying-up leases in CIPL's facility under construction. Any delay in tying-up leases or slower-than-expected ramp-up in billings post COD would be a negative from credit perspective.

The stable outlook of the rating reflects ICRA's opinion that CIPL will continue to benefit from the strong operational track record of the Group in the DC business.

Key rating drivers and their description

Credit strengths

Long operational track record of Group– The company will benefit from the long operational track record of the Group in DC business. Currently, the Group operates six tier-IV datacenters at four locations in India under the Group’s flagship company, CtrlS Datacenters Limited. CtrlS has also provided shortfall undertaking to make good any shortfall in meeting debt obligations and any cost overrun. CIPL is setting up a 50 MW tier-IV datacenter in Mumbai, Maharashtra, adjacent to the existing datacenter of CtrlS, with a proposed capacity of 5000 racks in phase 1 of the project. The expected date of commencement of commercial operation of the project is June 30, 2021.

Tier IV datacenter services - The company will provide tier-IV nature of the datacenters, which enable the company to command premium pricing.

Favourable regulations support long-term prospects of datacenter business- Demand for datacenters has been improving since 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

Nascent stages of execution - The project remains exposed to execution risks, given the very nascent stages of the project’s construction; however, comfort can be taken from the extensive experience of the Group in executing datacenter projects. Till August 31, 2020, the company incurred Rs. 98.2 crore, which translates to 32.7% of the total cost, funded through promoter funds of Rs. 96.04 crore and debt of Rs. 2.16 crore. The construction progress has slowed down from March 2020 onwards because of disruption in construction activities and delay in getting requisite approvals due to the Covid-19 pandemic. The ability of the company to commission the project in a timely manner and within the budgeted costs would remain important from a credit perspective. Around 74% of equity has been infused and the remaining Rs. 33.96 crore will be brought in by promoters during project execution.

Exposed to market risk – The company is in discussions with certain internationally reputed datacenters and some of the existing customers in its existing Mumbai DC under CtrlS for tying-up leases in CIPL’s facility under construction. Any delay in tying-up leases or slower-than-expected ramp-up in billings post COD would be a negative from the credit perspective.

Competition from other established players –The company also faces competition from other established players such as Netmagic IT Services Private Limited (rated [ICRA]AA+ (Stable)/A1+), STT Global Data Centres India Private Limited and Sify Technologies Limited (rated [ICRA]A+ (Stable)/A1+).

Liquidity position: Adequate

The company’s liquidity is adequate. The pending project cost of Rs. 201.8 crore is expected to be funded by way of debt to the extent of Rs. 167.84 crore and the remaining Rs. 33.96 crore from the promoter’s contribution. The debt repayment starts in November 2021 and the annual repayment for FY2022 is Rs. 2 crore, which can be met through the estimated cash flow from operations.

Rating sensitivities

Positive triggers – ICRA could upgrade CIPL’s rating on completion of the project within the stipulated timeline and demonstrates more-than-expected capacity utilisation on a sustained basis.

Negative triggers – Negative pressure on CIPL’s rating could arise if there is a delay in completion of project and/or lower-than-expected ramp-up in revenues post COD. Further, any weakening in linkages with the group company CtrlS Datacenters and/or erosion of sponsor's/promoter's credit profile would be a credit negative. Specific credit metrics that could lead to downgrade include average DSCR staying below 1.8 times on a sustained basis.

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	Group company: CtrlS Datacenters Limited The rating factors in strong operational and business linkages between CtrlS (India) Private Limited and CtrlS Datacenters Limited. CtrlS has also provided shortfall undertaking to make good any shortfall in meeting debt obligations and any cost overrun.
Consolidation/Standalone	Standalone

About the company

CtrlS (India) Private Limited was incorporated in 2008 with the objective of providing infrastructure for data storage and data protection solutions. It is setting up a datacenter facility in three phases, with a proposed capacity of 15,000 racks. The proposed facility would be established at TTC, Mahape in Thane, Maharashtra, which is adjacent to the Group’s already existing datacenter. The phase 1 of the project, with a proposed capacity of 5000 racks, is expected to incur a total project cost of Rs. 300 crore, which will be funded through debt of Rs. 170 crore and promoter contribution of Rs. 130 crore. Till August 31, 2020, the company incurred Rs. 98.2 crore, which translates to 32.7% of the total cost, funded through promoter funds of Rs. 96.04 crore and debt of Rs. 2.16 crore. The pending project cost of Rs. 201.8 crore is expected to be funded by way of debt to the extent of Rs. 167.84 crore and the rest Rs. 33.96 crore from the promoter’s contribution.

Key financial indicators (audited)

Not applicable as CtrlS (India) Private Limited is a project stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					22-Sep-2020	8-Apr-2019	-	-
1	Term Loan	Long Term	170.0	10.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Non fund based	Long Term	1.0	0.0	[ICRA]BBB+ (Stable)	-	-	-

Amount in Rs. crore

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: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Jan-2020	9.25%	Aug-2029	170.00	[ICRA]BBB+ (Stable)
NA	Credit Exposure Limit	Jan-2020	NA	NA	1.00	[ICRA]BBB+ (Stable)

Source: CtrlS (India) Private Limited

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