

November 23, 2020

## Nxtgen Datacenter and Cloud Technologies Private Limited: Rating upgraded to [ICRA]B+ (Stable)

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	100.0	100.0	[ICRA]B+ (Stable); upgraded from [ICRA]D
Fund based-Cash Credit	15.0	15.0	[ICRA]B+ (Stable); upgraded from [ICRA]D
<b>Total</b>	<b>115.0</b>	<b>115.0</b>	

### Rationale

The upgrade in ratings factors in the improvement in debt servicing track record by NxtGen Datacenter and Cloud Technologies Private Limited (Nxtgen). The ratings continue to factor in the favourable presence of the company's data center (DC) and cloud business operations in Bangalore further the ratings are also supported by the positive industry demand outlook reflecting healthy growth potential of Nxtgen. The rating draws comfort from the longstanding experience of the company's promoter group and the management team in the telecom / datacenter industry. Additionally, the company's diversified customer profile across business segments lends comfort.

ICRA, however, takes note of the stretched liquidity position of the company as reflected by the extended credit period provided by the suppliers, fully utilised working capital limits and limited cash levels. Given the high capex intensity of the business in the initial years of operations and associated debt availed, Nxtgen's financial profile is modest characterised by losses and weak cash flows. Moreover, high debt repayment obligations over near to medium term necessitate substantial profit improvement on the back of higher occupancies and alternatively refinancing. ICRA also notes the company's exposure to high competitive intensity as is prevalent in the business though mitigated to an extent by existing good client relationships. The risk of breach of data security / technical break-downs could also impact the reputation of the DC and cloud players.

The Stable outlook reflects ICRA's expectations that Nxtgen will continue to benefit from the extensive experience of its promoters in the DC and cloud business and the healthy industry outlook. Going forward, apart from improvement in liquidity position, the company's ability to ramp up its operations by better rack utilization enabling it to generate adequate cash accruals and improve its debt coverage metrics will remain crucial.

### Key rating drivers

#### Credit strengths

**Favorable geographical presence and uninterrupted power supply** – Nxtgen hosts its Tier 3 High Density Datacenter or HDDC in Bidadi, Bangalore which is home to a large number of software companies. Also, low seismic risk, available talent pool, relatively favorable weather and strong demand potential in the region positively influences demand. As availability of uninterrupted power remains critical to operations, the company has tied up with a partner for the supply

of power at a concessional rate. It also has assets in Ahmedabad, Faridabad and Mumbai through strategic tie up with Bharat Sanchar Nigam Limited (BSNL).

**Healthy demand outlook for DC and cloud business**– With increased focus on mobility and big data activities in India, software defined networking has highest adoption rate amongst corporates. Also, storage modernization and efficient storage options have paved way for cost optimization initiatives for corporates creating positive outlook for the data center industry, more so post occurrence of the Covid pandemic. Regulatory support from the Indian government on data localisation has also bolstered business potential. The company's majority revenues is derived from its cloud segment.

**Diversified customer profile** – The company has a total clientele of more than 500 customers across various industries including both government entities and private enterprises. The company's tie up with BSNL enables it to execute projects for various government departments. Private enterprises include entities in entertainment, financial services and manufacturing entities among others. The large investments made by customers and the downtime risks associated with shifting result in high customer stickiness in DC business.

**Long experience of promoter group and management team** - The promoter group has rich experience in the field of IT/ data center industry which support growth prospects.

## Credit weaknesses

**Limited track record of operations** - The company has been heavily investing in its infrastructure since inception in 2012 and due to the long gestation period of the business, the company is yet to turn profitable on a net profit basis. As of September 2020, the company's Bangalore data center occupancy was at 60% which improved from 47% occupancy in March 2020. Further the company expects to keep adding more enterprise clients which would also aid in improving the profitability of the company.

**Modest financial profile characterized by weak return metrics and stretched working capital position** – Nxtgen's operating margins are healthy in the range of 23-24 % in FY2020, rising to to 25% in H1FY2021 on a provisional basis. However, high interest outgo along with depreciation continues to result in net losses. The company's DSCR was weak at 0.8 time in FY2020 due to the higher debt repayment obligations. Additionally, the working capital position of the company is stretched as indicated by stretched creditors (TOL/TNW of 3.5 times as on Sep 2020), fully utilised working capital limits and limited cash levels.

**Exposed to breach of data impacting reputation of DC as an industry** – Confidentiality, integrity and availability remain critical to operations and the reputation of the DC. However, strategic tie ups to mitigate the risks associated with breach of data security and technical break-downs at its DCs lend comfort. Additionally, it is to be noted that NxtGen has maintained the uptime as per the service level commitment and never went down since the inception.

**Competition from other established players** – Given the high demand potential this industry has witnessed entry of various new players which keeps the competitive intensity high for the company.

## Liquidity position: Stretched

The company's liquidity position is **stretched** as evident from the high reliance on the working capital borrowings, high funding from creditors and modest cash levels. As of September 2020, company's cash credit limits are almost fully

utilised leaving limited undrawn buffer. The company has high debt repayment obligations in the near to medium term. The company had availed the first moratorium of three months upto May 2020 on its principal obligations.

## Rating sensitivities

**Positive triggers** – ICRA may upgrade Nxtgen’s ratings if sustained improvement in its revenues leads to improved net profitability and coverage indicators. Specific credit metric that could lead to an upgrade of ratings include DSCR of more than 1.1 times on a sustained basis. Further improvement in liquidity will be a key rating trigger.

**Negative triggers** – Negative pressure on the ratings may arise, if the company’s fails to show improvement in its return metrics which would weakens its liquidity position and debt coverage metrics. Specific credit metric that could lead to a downgrade of ratings include TOL/TNW of more than 3.5 times.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer.

## About the company

NxtGen Datacenter and Cloud Technologies Private (Nxtgen) Limited was initially incorporated as PVRR Data City Private Limited on 21st March 2012 with the primary objective of setting up a Datacenter. The Company is promoted by Mr. A S Rajgopal, Mr. Prasad, Mr. Ritesh Khandelwal & Mr. Viral Thakkar. The Company has set up a high efficiency and high-density data centre (HDDC) in Bangalore. The Company is primarily providing Enterprise Cloud Services (ECS) which account for a significant amount of its topline. Nxtgen has multiple strategic tie ups and provides add-on services ranging from procurement to artificial intelligence to disaster recovery which supports its revenue prospects.

In FY2020, the company reported a profit after tax (PAT) of Rs. -15.3 crore on an OI of Rs. 153.6 crore, compared to a PAT of Rs. -16.5 crore on an OI of Rs. 146.0 crore in FY2019. In H1 FY2020, on a provisional basis, the company has clocked a revenue of Rs. 88 crore with a PAT of Rs. -1.54 crore.

## Key Financial Indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	146.0	153.6
PAT (Rs. crore)	-16.5	-15.3
OPBDIT/OI (%)	23.1%	22.0%
RoCE (%)	0.6%	1.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.6	3.3
Total Debt/OPBDIT (times)	3.9	3.2
Interest Coverage (times)	1.9	1.9
DSCR	1.2	0.8

\*Company data

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

**Any other information: None**

**Rating history for last three years:**

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding as on Sep 2020	Rating	FY2019	FY2018	FY2017
					23-Nov-2020	16-Jul-2019	31-Jan-2018	27-Dec-2017
1	Term Loan	Long Term	100.00	65.0	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable); withdrawn
2	Fund Based - CC	Long Term	15.0	14.6	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable); withdrawn

**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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Interest Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Sept 2017	12.00%	June 2022	100.00	[ICRA]B+ (Stable)
NA	Cash Credit	NA	12.00%	NA	15.00	[ICRA]B+ (Stable)

Source: Company

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