Nxtra Data Limited

August 03, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper	1,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**1,000.00 (₹ One thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the rating assigned to the commercial paper (CP) programme of Nxtra Data Limited (NDL) considers the strong market position of the company, the reputed client base with adequate revenue visibility, the comfortable financial risk profile, and the strong demand outlook of the industry.

The rating continues to derive strength from the company's strong and resourceful parentage, ie, Bharti Airtel Limited (BAL), which directly and indirectly holds a 75.96% stake in the entity, the business and operational linkages between the two companies, along with its strategic importance to BAL. CARE Ratings Limited (CARE Ratings) takes cognisance of the acquisition of the 24.04% stake in NDL by The Carlyle Group, which has further strengthened the capital structure of the company.

The above rating strengths, however, are constrained by the highly capital-intensive nature of the data centre business and the capex plan of NDL. Thus, any major debt-funded capital expenditure (capex), leading to a weakening in the capital structure of NDL, will remain a key rating sensitivity.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any change in the strategic importance of NDL to BAL, or, material deterioration in the credit profile of BAL.
- Material deterioration in the coverage metrics.

Detailed description of the key rating drivers

Key rating strengths

Strong and resourceful parentage: BAL holds a 75.96% share directly and indirectly in NDL. As per data from the Telecom Regulatory Authority of India (TRAI), BAL had a total subscriber base of 366.18 million, consisting of 360.33 million wireless subscribers (31.55% market share, PY: 29.84%) and 5.85 million wireline subscribers bases (23.56% market share, PY: 23.61%) as on March 31, 2022. It had another 128.40 million subscribers in Africa and is the third-largest telecom operator in the world by the number of subscribers. During FY22 (refers to the period from April 1 to March 31), BAL (consolidated) reported a total operating income (TOI) of ₹117,081 crore (registering 16.40% growth vis-à-vis FY21), with a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 49.60%.

Business and operational linkages along with strategic importance for BAL: NDL's offering to its clients forms a crucial proposition in the services provided by BAL, which substantiates the importance of NDL for BAL. Additionally, the major share of revenue of NDL is derived from BAL, thus creating a strong inter-dependence between the two companies. NDL also has common treasury functions and other managerial resources, leading to significant linkages between NDL and BAL.

Client base of repute with revenue visibility: NDL's client base comprises large telecom service providers, technology multi-nationals, as well as small and medium enterprises (SMEs). The company has tied up medium- to long-term co-location agreements with these clients. Furthermore, with the higher demand for data centres, the company is expected to be benefitted from the increased tenancies for its under-implementation capacities.

Strong operational efficiency and market positioning: As on March 31, 2022, NDL has over 120+ edge data centres distributed pan-India and 12 large data centres in key locations such as Mumbai, Pune, Bengaluru, Chennai, the NCR, and Bhubaneshwar. NDL forms a significant portion of India's data centre capacity and is a key player in the data centre industry. NDL is also scaling up its data centre capacity with a target of cumulative capacities above 400 megawatt (MW), which will further strengthen its market position in the industry.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

NDL's revenue from operations reported an increase by about 20%, from ₹1,109.10 crore in FY21 to ₹1,333.30 crore during FY22, on the back of an increase in operational capacities. The PBILDT margin also improved by about 320 basis points (bps), to 40%, owing to a reduction in power costs.

Comfortable financial risk profile: The financial risk profile is characterised by an improvement in the gross cash accruals (GCA) as a result of the increased scale and profitability in the last four years, and the improved overall gearing and interest coverage metrics as a result of reduced debt levels. The Carlyle Group has invested about US$ 235 million in NDL, which has improved the net worth of the company. The funding has also allowed NDL to deleverage its financial profile, as a result of which the total outside liabilities (TOL) to tangible net worth (TNW) of the company has improved to 0.36x (PY: 1.01x).
CARE Ratings Limited (CARE Ratings) estimates that with the capex in the pipeline, the solvency indicators may moderate in the medium term. However, with healthy cash accruals and plough back of surpluses to net worth, the capital structure of the company is expected to remain comfortable.

Favourable demand and high industry concentration for the data centre business: The data centre industry is receiving an influx of demand from global technology solution providers along with other industry players on the back of the strategic location of the Indian subcontinent, industry-friendly regulations, and the digitisation of business practices. Notwithstanding the rising consumption of data and the rollout of 5G services which will reinforce the demand for data centres, large capital investments outlay pose as a prominent entry barrier to the DC industry thereby widening the gap in the demand-supply metrics of the industry.
NDL continues to enjoy a high level of financial flexibility and the ability to raise funds from the capital market, being part of the Bharti group.

Key rating weaknesses
Capital-intensive business: The data centre business is capital-intensive, as companies need to incur a significant amount of capex (in the form of civil work, power, and cooling infrastructure) to meet the increasing demand. The risks are also elevated on account of implementation risks for the capacities under development. NDL's financial position and experience in developing data centres act as a mitigant for these risks to an extent. Furthermore, the revenues are also dependent on the new as well as additional tenancies. Despite the projected increase in the share of business from large multinationals and SMEs, BAL is expected to remain an anchor tenant for NDL, assuring revenues to some extent.

Liquidity: Strong
The liquidity position of the company is strong, marked by free cash and cash equivalents of about ₹200 crore as on March 31, 2022. NDL, being part of the Bharti group, has strong access to banks and capital markets to adequately cover its working capital and capex requirements. Besides, CARE Ratings expects Bharti group to provide continual need-based support to NDL.

Analytical approach
Standalone, while factoring in linkages with the strong parentage, being a subsidiary of BAL, along with business and operational linkages with BAL.

Applicable criteria
Policy on Default Recognition
Notching up by factoring linkages – parent, sub, JV, group
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Service sector companies

About the company
NDL, incorporated in July 2013, is the subsidiary of BAL. NDL is primarily engaged into the business of data centres and managed infrastructure services. As on March 31, 2022, the company has about 12 enterprise grade data centres (catering to big tech corporates) at multiple locations across India, and has about 120+ edge data centres across India. The company provides services to a suite of customers across global Cloud providers, large enterprises, governments, and SMEs. The company has an ISO 9001 quality management systems certification.

Financial performance

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
TOI	1,109.10	1,333.30	Not available
PBILDT	408.20	533.20	
PAT	178.80	238.40	
Overall gearing (times)	0.59	0.19	
Interest coverage (times)	16.94	23.28	

A: Audited; UA: Unaudited.

About BAL:
Headquartered in India, BAL is a global communications solutions provider with over 49.1 crore customers in 17 countries across South Asia and Africa. The company ranks among the top three mobile operators globally and its networks cover over 2 billion people. Airtel is India's largest integrated communications solutions provider and the second-largest mobile operator in Africa. Airtel's retail portfolio includes high speed 4G/4.5G mobile broadband, Airtel Xstream Fiber with convergence across linear and on-demand entertainment, streaming services spanning music and video, digital payments and financial services. For enterprise customers, Airtel offers a gamut of solutions that includes secure connectivity, Cloud and data centre services, cyber security, the Internet of Things (IoT), Ad Tech, and Cloud-based communication.
The company had 32.6 crore mobile subscribers in India and 12.8 crore in Africa, as on March 31, 2022, and is the third-largest telecom operator in the world by number of subscribers.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (standalone)	-	-	-	7-364 days	755.00	CARE A1+
Commercial paper-Commercial paper (standalone)	INE0BTN14071	March 16, 2022	5.35%	February 7, 2023	245.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Commercial paper-Commercial paper (standalone)	ST*	1,000.00	CARE A1+	-	1)CARE A1+ (November 09, 2021) 2)CARE A1+ (August 06, 2021)	-	-

*Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities
Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Commercial paper-Commercial paper (standalone)	Simple

Annexure-5: Bank lender details for this company
Not applicable

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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