

India Ratings Upgrades ESDS Software Solution’s Bank Loan Facilities to ‘IND A’/Stable/‘IND A1’

Sep 29, 2026 | ESDS Software Solution Limited(Formerly ESDS Software Solution Private Limited) | Computers Hardware & Equipments

India Ratings and Research (Ind-Ra) has upgraded ESDS Software Solution Limited’s (ESDS) bank loan facilities’ long-term rating to ‘IND A’ with a Stable Outlook from ‘IND BBB+’ and short-term rating to ‘IND A1’ from ‘IND A2+’ as follows:

Details of Instruments

Instrument Type	Regulator of Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (INR million)	Rating Assigned with Outlook/Watch	Rating Action
Bank loan facilities	RBI	-	-	-	500	IND A/Stable/IND A1	Upgraded

Analytical Approach

Ind-Ra continues to take a fully consolidated view of ESDS and its subsidiaries —ESDS Cloud FZ LLC (holds 100% stake), Spochub Solutions Private Limited (99%) and ESDS Global Software Solutions Inc (100%) —while arriving at the ratings, because of the strong operational and strategic linkages among them.

Detailed Rationale of the Rating Action

The upgrade reflects ESDS's sustained improvement in its business scale and diversification over FY24-FY26, healthy growth in its recurring cloud and managed services business, improving revenue visibility, supported by a substantial order book and strengthened credit metrics. The ratings factor in the company's established position in the domestic cloud and data centre services market, increasing presence in government and enterprise digital transformation projects and expected benefits from investments in artificial intelligence (AI)-led infrastructure and cloud offerings.

The ratings are, however, constrained by execution risks associated with ongoing capex in servers, networking equipment and other non-information technology (IT) infrastructure and the data center capacity expansion, and high customer concentration risk.

List of Key Rating Drivers

Strengths

- Strong business profile
- Healthy revenue and profitability
- Comfortable credit metrics
- Industry tailwinds for Indian data centres

Weaknesses

- High capex intensity
- High customer concentration risk
- Technology and intense competition risks

Detailed Description of Key Rating Drivers

Strong Business Profile: ESDS has established a strong business profile in the domestic IT infrastructure and cloud services industry, supported by its integrated service offerings across cloud infrastructure-as-a-service (IaaS), software-as-a-service (SaaS) and managed services. The company provides end-to-end digital transformation solutions ranging from co-location and cloud data centre infrastructure to cloud migration, disaster recovery, security operations and enterprise software solutions. Its operating profile is strengthened by ownership of five data centres across Mumbai, Nashik, Bengaluru, Mohali and Noida, enabling it to cater to a diversified clientele comprising government entities, banking, financial services, and insurance (BFSI) players and corporates. ESDS further benefits from a long operational track record of over two decades, experienced promoter and management team, and established partnerships with Software Technology Parks of India (STPI) and Central Electronics Limited (CEL), which strengthen its positioning within the government's digitalisation ecosystem. The company is also positioned to benefit from the increasing adoption of cloud computing, data localisation requirements, AI-driven workloads and digital transformation initiatives across sectors.

ESDS has entered a graphics processing unit (GPU) infrastructure agreement with SharonAI Holdings Inc. (SharonAI) for the offtake of 8,208 NVIDIA B300 GPUs, involving a service fee payable of USD1.25 billion over five years. The company has also executed a back-to-back agreement with an enterprise customer to provide GPU-as-a-Service (GPUaaS), cloud and managed services through its proprietary Swaraj Cloud platform. The project is scheduled to be commissioned in 3QFY27 and is likely to strengthen ESDS's revenue profile. According to the management, the customer contract terms are largely aligned with the GPU infrastructure agreement, thereby mitigating liquidity mismatch risk and supporting cash flow visibility. Moreover, ESDS has received a net customer advance of INR11,766.35 million (after adjusting for the USD140 million security deposit placed with SharonAI), which further enhances the revenue visibility for the project. The timely commissioning of the project and generation of the envisaged revenue and cash flows will remain key rating monitorables.

Healthy Revenue and Profitability: Ind-Ra expects ESDS to continue maintaining a healthy growth trajectory in FY27, supported by its strong order book which provides multi-year revenue visibility, capacity expansion through upcoming data centres in Kolkata and Sahibabad (Ghaziabad) and additional 10MW IT load expansion in Bengaluru, and the commencement of revenue from the GPUaaS contract. The company's consolidated revenue grew 31% yoy to INR4,722 million in FY26 (FY25: INR3,613 million), driven by robust growth in the managed services segment, which contributed 41% to its total revenue (21%). IaaS and SaaS contributed 44% in FY26 (FY25: 56%; FY24: 50%) and 15% (23%; 23%). Its revenue growth was further supported by an expanding customer base, increased cross-selling opportunities among existing customers and healthy order book execution. Supported by a favourable shift in business mix towards higher-margin managed services offerings and operating leverage benefits, the consolidated EBITDA margins improved significantly to 49.6% in FY26 (FY25: 42.9%), resulting in the consolidated EBITDA increasing to INR2,342 million (INR1,549 million). Ind-Ra expects the EBITDA margin to moderate to 25%-30% with the commissioning of GPUaaS contract; however, the agency expects the absolute EBITDA to increase significantly with the increase in the scale of operations.

Comfortable Credit Metrics: Ind-Ra expects ESDS's credit metrics to remain comfortable over the near- to medium term, despite its sizeable capex pipeline, as the planned investments are likely to be largely funded through the proceeds of its initial public offering (IPO) during August-September 2026 and consistent cash flow operations. The company's credit profile strengthened considerably in FY26, with ESDS reporting a net cash position (FY25: net leverage (net debt/EBITDA) of 0.4x), driven by consistent debt reduction over the years and a healthy cash position supported by customer advances and IPO proceeds. Consequently, the consolidated gross interest coverage (EBITDA/gross interest expense) improved significantly to 19.9x in FY26 (FY25: 6.1x), aided by lower interest costs resulting from debt repayment and higher operating profitability. The agency expects the company's leverage to remain prudent over the near to medium term. However, any large debt-funded capex without a commensurate increase in the EBITDA, leading to the consolidated net leverage exceeding 2.0x on a sustained basis, could be negative for the ratings.

Industry Tailwinds for Indian Data Centres: The Indian data centre industry continues to benefit from strong structural demand drivers, with the rapid adoption of AI, large language models and generative AI workloads emerging as a key catalyst for incremental demand. This is driving increased requirements for high-density data centres, GPU hosting and AI compute infrastructure. Traditional demand drivers, including cloud adoption, enterprise digitalisation, and the migration of workloads from on-premise infrastructure to third-party data centres, remain robust. The sector is further supported by favourable policy initiatives such as data localisation requirements and the proposed grant of infrastructure status. However, high capital intensity, the need for reliable power and fibre connectivity, and advanced cooling and power-management capabilities required for AI workloads create significant entry barriers, supporting the long-term competitive positioning of established operators.

High Capex Intensity: ESDS operates the IaaS and cloud computing segment, which is inherently capital intensive and requires continuous investments in data centre infrastructure, servers, networking equipment and related technological upgrades. The execution of customer contracts typically requires significant upfront capital deployment to meet the technical specifications and service-level requirements stipulated in customer agreements. Furthermore, maintaining high uptime and service reliability necessitates ongoing investments in power redundancy, cooling systems, bandwidth capacity and server infrastructure. ESDS incurred capex of INR1,259 million in FY26 (FY25: INR1,134 million), primarily towards facility upgrades and additional rack capacity. The company raised equity of INR7,200 million, of which INR5,760 million has been earmarked for capex towards cloud and GPU servers, networking equipment and data center non-IT infrastructure over FY27-FY28, while the remaining INR1,440 million is intended for general corporate purposes. In addition, the company is developing data centre capacity in Kolkata (around 5MW IT load) and Sahibabad (around 20MW IT load), which could entail a cumulative capex of INR10,000 million-11,000 million over FY27-FY28. While the timing, scale and funding mix of the capex remain subject to management's capital allocation decisions and demand visibility, any accelerated expansion of data centre capacity could affect the company's liquidity position and financial profile. Nevertheless, Ind-Ra takes comfort from the company's ability to generate consistent cash flow from operations, its improved capital structure following the listing in August 2026, and its large cash balance of INR12,534 million as on 31 March 2026, which is likely to have increased further following the receipt of INR7,200 million of IPO proceeds in 2QFY27.

High Customer Concentration Risk: In FY26, the top 10 and the top five customers contributed 45.4% (FY25: 49.3%) and 34.9% (39.2%) to the revenue, respectively, which exposes ESDS to significant revenue concentration risk in the event of the non-continuation of contract with any of the top 10 customers. The moderation in customer concentration in FY26 can be attributed to a reduction in the revenue from a Russian financial institution due to the economic sanctions imposed on Russia and expansion of overall customer base. Ind-Ra expects the customer concentration risk to increase significantly over the medium term upon the commissioning of the GPUaaS contract. Nevertheless, the agency takes comfort from the long-term customer relationships as reflected in the following metrics – (a) 65.6% of customers have relationships of more than three years with ESDS at FYE26 (FYE25: 61.4%); (b) revenue retention rate from the existing customer stood at 94.2% (96.6%), and (c) long-term fixed payout contract signed with GPUaaS customer and criticality of ESDS services to customer's operations.

Technology and Intense Competition Risks: The data centre, cloud and managed services industry is characterised by rapid technological evolution, requiring continuous investments in infrastructure, software platforms, cybersecurity, and service capabilities to remain competitive. Any inability to timely adopt emerging technologies, including AI, cloud-native solutions, automation and next-generation data centre infrastructure, could impact ESDS's market positioning and customer retention. Furthermore, the company operates in a highly competitive industry, facing competition from global hyperscalers, large domestic data centre operators and cloud service providers, which could exert pressure on pricing, customer acquisition and margins. Nevertheless, ESDS's established customer relationships, diversified service offerings, proprietary cloud solutions and domain expertise provide some mitigation against competitive pressures. Any sustained deterioration in market share, profitability or technological relevance could adversely affect the company's business profile and credit metrics.

Liquidity

Adequate: ESDS's liquidity is adequate, supported by a strong cash position, healthy cash flow from operations, and improved financial flexibility following the IPO. The company's liquidity profile strengthened significantly in FY26, with unencumbered cash and cash equivalents increasing to INR12,534 million at FYE26 (FYE25: INR607 million), supported by IPO proceeds, customer advances and improved operating performance. The company also benefits from significant headroom under its working capital facilities, with average utilisation of fund-based limits remaining low at around 4% during the 12 months ended April 2026. Ind-Ra expects the utilisation to have remained at a similar level during the four months ended August 2026.

The company has debt repayment obligations of INR120 million in FY27 and INR108 million in FY28 and are expected to be comfortably serviced through internal cash generation. The net working capital cycle reduced to 19 days in FY26 (FY25: 49 days), driven by efficient receivables management and favorable customer advance balances. A substantial improvement in the EBITDA, receipt of customer advances and shortening of the net working capital cycle led to a material improvement in ESDS's cash flow from operations (net of cash interest), to INR13,674 million in FY26 (FY25: INR1,502 million). On the other hand, liquidity could come under pressure from the planned capex of INR15,000 million in FY27 and remains contingent upon the timely commissioning of the GPUaaS contract.

Rating Sensitivities

Positive: A substantial improvement in the operating profitability, while maintain healthy credit metrics, on a sustained and consolidated basis, could lead to a positive rating action.

Negative: A higher-than-Ind-Ra-expected debt-funded capex without a commensurate increase in operating profit, leading to the net leverage exceeding 2.0x on a sustained and consolidated basis, could lead to a negative rating action.

Any Other Information

Not applicable

About the Company

Incorporated in 2005, ESDS is primarily engaged in providing IT-enabled services including cloud computing infrastructure, colocation data centre infrastructure, SaaS and managed services. ESDS has its registered office in Nashik and currently operates five data centres in Nashik, Mumbai, Bengaluru, Mohali and Noida with a cumulative around 8.9MW IT load capacity.

Key Financial Indicators

Particulars (INR million) – Consolidated	FY26	FY25
Revenue	4,722	3,613
EBITDA	2,342	1,549
EBITDA margins %	49.6	42.9
Interest coverage (x)	19.9	6.1
Net leverage (x)	NM	0.4
Source: ESDS, Ind-Ra NM: Not meaningful		

Particulars (INR million) – Standalone	FY26	FY25
Revenue	3,781	3,574
EBITDA	1,568	1,539
EBITDA margins %	41.5	43.0
Interest coverage (x)	13.3	7.0
Net leverage (x)	0.6	0.7
Source: ESDS, Ind-Ra NM: Not meaningful		

Status of Non-Cooperation with Previous Rating Agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Current Rating	9 July 2025	10 April 2024	18 September 2023	24 July 2023
Issuer rating	Long-term	-	-	-	-	WD	IND BB(ISSUER NOT COOPERATING)
Bank loan facilities	Long-term/Short-term	INR500	IND A/Stable/IND A1	IND BBB+/Positive/IND A2+	IND BBB/Positive/IND A2	-	IND BB(ISSUER NOT COOPERATING) / IND A4+ (ISSUER NOT COOPERATING)

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Rating Activities

Note: Kindly note that for activities or instruments falling under the purview of FSRs other than SEBI, the grievance/dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Bank wise Facilities Details

The details are as reported by the issuer as on (29 Sep 2026)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Axis Bank Limited	Fund Based Working Capital Limit	250	IND A/Stable / IND A1
2	IndusInd Bank Limited	Fund Based Working Capital Limit	50	WD
3	IndusInd Bank Limited	Non-Fund Based Working Capital Limit	50	WD
4	Axis Bank Limited	Non-fund-based working capital limits	120	IND A1
5	Axis Bank Limited	Term Loan	11.8	IND A/Stable
6	NA	Proposed Fund-based working capital limits	118.2	IND A/Stable / IND A1

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank loan facilities	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Short-Term Ratings Criteria for Non-Financial Corporates

The Rating Process

Evaluating Corporate Governance

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