

## AI-led demand for Data Centres in India expected to add ~500 MW of capacity over the next 4 years: Avendus Capital Study

Mumbai, August 21, 2024

Avendus Capital, India's largest investment bank, unveiled volume II of its study on the large investment opportunity that exists in India's data centre (DC) market, which is undergoing massive disruption led by increased demand and use cases by AI customers. According to the report, AI-led DC capacity in India has the potential to add another 500 MW over the next 4 years.

With AI workloads set to surge and eventually outpace traditional cloud computing, the demand for DCs is also expected to rise sharply. In a major deviation from global trends, hyperscalers in India are opting to build and own DCs tailored to their specifications. This preference is bolstered by India's long-term growth potential and regulatory guidance for data sovereignty.

The sector doubled from ~540 MW in 2019 to ~1,011 MW in 2023, making India among the fastest-growing DC markets globally. Expected to grow at a CAGR of ~26% over the next three years, the sector is attracting considerable attention from a wide range of investors, from growth stage PEs to long-term pension and sovereign wealth funds.

On launching the report, **Prateek Jhavar, Managing Director and Head, Infrastructure & Real Assets Investment Banking, Avendus Capital** said, "We believe that India's DC market will pave the way for the next wave of investments in real estate and AI, unlocking tremendous stakeholder value. Developers can expect to generate 25%+ IRR with a build-and-sell model, highlighting the sector's potential for superior returns compared to other yielding real asset classes. This will drive demand for DC capacity in India, which is expected to double to 2 GW by 2026."

Approximately 94% of the current installed DC capacity is concentrated in India's top seven cities. Over the next five years, around 40% of the total additional capacity is projected to be added in Mumbai, underscoring the city's significance in the space. Chennai is expected to contribute about 25% of the new capacity, while Delhi will account for around 15%. Edge DCs (smaller facilities located close to the populations they serve) are anticipated to experience substantial demand due to rising data generation and consumption in Tier 2 and Tier 3 cities.

Developers creating an extensive network of DCs stand to gain considerable advantages and prefabricated DCs are poised to provide a rapid and efficient solution to meet this demand. Those aiming for more than just development returns are offering enterprise solutions such as colocation and managed services, increasing ROCEs by over 50%, and doubling ROEs, compared to pure-play hyperscale colocation businesses.

"We anticipate heightened transaction activity from both public and private markets. Scaled investments with a vintage of over 4 years are expected to seek listing opportunities, while developers will look to raise larger amounts of capital to fund this growth. The industry is maturing with the entry of long-term investors with commitments of over USD 250 million per investment, offering de-risked returns," **Prateek** added.

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Avendus Capital, the investment banking arm, is consistently ranked among the top investment banks in the country on the back of its in-depth domain understanding and a best in the class track record of domestic and cross-border transactions. Avendus' wide range of clients is testimony to its ability to serve its corporates throughout their life cycle – from growth stage funding to large-sized transactions, M&A advisory and access to public markets.

Avendus Capital Inc located in New York is an Avendus Group entity offering M&A and Private Equity syndication services to clients in the US.

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