

### India's Data-Centre Race Is Moving From Megawatts to Compute

India's next digital-infrastructure cycle will not be decided by announced capacity alone. The winners will be those that can convert power into contracted, efficiently financed and saleable compute

India's data-centre market is no longer a narrow real-estate or telecom story. It is becoming a strategic layer of the economy, the infrastructure on which cloud services, artificial intelligence, digital payments, government platforms and sensitive national data will run. The Ministry of Electronics and Information Technology says installed capacity rose from roughly 375 MW in 2020 to about 1,500 MW in 2025. Under the IndiaAI compute framework, 38,231 GPUs had been onboarded through 14 empanelled providers by March 2026.

That fourfold increase is important, but it understates the change underway. A conventional data centre sells resilient power, cooling, connectivity and physical space. An AI data centre must additionally support high-density GPU clusters, advanced networking, liquid or hybrid cooling, and software that converts hardware into usable GPU-hours. The commercial unit is therefore shifting from the megawatt to saleable compute.

#### The asset is changing

A megawatt is only valuable when it is connected, cooled, equipped, contracted and earning.

For traditional facilities, investors track commissioned capacity, utilisation, power usage effectiveness, customer tenure and contracted revenue. For AI infrastructure, the diligence list is wider: delivered GPU-hours, cluster utilisation, revenue per GPU-hour, interconnect performance, customer concentration, minimum commitments and the party bearing technology-refresh risk.

This distinction matters because the economic lives of the two layers are different. The building, substation and cooling infrastructure may earn over decades. GPUs are costly, fast-depreciating assets exposed to changes in chip architecture and customer demand. Combining both layers into a single capex number can conceal the real return on capital.

#### Where the money goes

A standard data-centre shell is dominated by electrical and mechanical infrastructure: substations, transformers, UPS systems, backup generation, chillers, cooling distribution, fire protection and security. JLL estimates the average global construction cost of a data centre at about US\$11.3 million per MW in 2026, before the full cost of customer IT hardware.

An AI factory reverses the emphasis. Once GPUs, servers, high-speed fabric and storage are included, the compute equipment can account for most of the all-in capital. As an indicative planning range, fitting out one MW of dedicated IT load with commercially deployable, next-generation GPU systems can require roughly ₹250–450 crore, excluding the underlying data-centre build. The precise number depends on GPU model, server architecture, redundancy, storage, networking and headroom.

## Our Views

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| Capital layer                | Indicative share | What drives the cost                                |
|------------------------------|------------------|-----------------------------------------------------|
| GPUs and compute servers     | 55–70%           | Accelerators, CPUs, memory and rack-scale systems   |
| Network and storage          | 10–15%           | High-speed fabric, switches and storage             |
| Power and cooling allocation | 15–25%           | Electrical systems, liquid cooling and redundancy   |
| Other / integration          | 5–10%            | Software, commissioning, security and contingencies |

Illustrative AI-compute project split; The mix varies materially by architecture and by whether the facility cost is included

#### Tax policy is now part of compute economics

The Union Budget 2026–27 proposed an income-tax holiday until 2047 for eligible foreign companies providing cloud services to customers outside India by procuring data-centre services in India. Services sold to Indian users must flow through an Indian reseller and be taxed in India. The Budget also proposed a 15% cost-based safe harbour for a related Indian entity providing data-centre services to the foreign cloud company.

The objective is strategically sound. It can help India move from hosting domestic data to exporting cloud and AI compute. It complements the IndiaAI Mission, which is aggregating GPU capacity through private providers and lowering access costs for startups, researchers and public-interest applications. It also strengthens the case for sovereign compute: critical workloads operated under trusted domestic infrastructure, security and governance arrangements.

But the income-tax incentive addresses the profit generated by the foreign cloud provider. It does not, by itself, reduce the upfront indirect-tax cost of procuring, importing or leasing the GPUs that generate the compute.

#### The GST blind spot in GPU financing

GPU systems are unusually difficult assets to finance. They require large upfront cheques, depreciate quickly and may need replacement before the physical data-centre infrastructure is fully seasoned. Domestic operators therefore have a strong reason to use equipment leasing, vendor finance or separately capitalised compute vehicles rather than fund the entire stack from equity and conventional project debt.

Under the GST rate framework, leasing or renting goods without transfer of title generally attracts the same GST rate applicable to the underlying goods. For computer equipment that ordinarily means an 18% GST charge, subject to the precise product and service classification. Imported equipment can also attract import IGST even where the applicable basic customs duty is nil. The tax may ultimately be creditable, but it still has to be funded, documented and matched against eligible output tax or a valid refund route.

This does not make the tax holiday legally unavailable. It can, however, weaken the very investment economics the holiday is intended to improve. On a ₹300 crore GPU deployment, an 18% indirect-tax incidence represents ₹54 crore of cash that may need to be financed until the credit is used or refunded.

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If the lessor owns the GPUs, GST arises over the lease rentals; the lessee's ability to absorb the credit depends on its own taxable or zero-rated outward supplies and on the contractual structure.

The drafting choice is therefore critical. Under GST, an exempt supply and a zero-rated export are not the same. Inputs attributable to exempt supplies can require credit restriction or reversal. A zero-rated export, by contrast, is designed to preserve the credit chain and can permit refund of unutilised input tax credit, subject to statutory conditions and process. A broad "GST exemption" for the output service may sound attractive but can strand tax paid on GPUs, power equipment and lease rentals. Zero-rating or a targeted refund mechanism is usually the cleaner policy instrument.

#### Leasing exposes the policy gap

A cash purchase concentrates the import or purchase tax at the beginning of the project. Leasing spreads the commercial cost but creates recurring GST on rentals. In theory, input credit should neutralise the tax for a fully taxable business. In practice, high-growth compute platforms often accumulate credits because their capex arrives well before revenues, exports may require refunds, different entities may own the equipment and sell the service, and credits cannot simply move across a poorly designed group structure.

This is why the ownership chain matters. Policymakers and investors must ask which entity imports the GPUs, which entity leases them, which entity contracts with the foreign cloud company, whether the service qualifies as an export, and where the input credit accumulates. A structure that separates the asset owner, data-centre operator and cloud reseller without mapping GST flows can turn a headline tax incentive into trapped working capital.

#### GIFT City offers a possible financing route

In August 2026, the International Financial Services Centres Authority issued a consultation paper proposing that operating and hybrid leases of GPUs and connected data-centre equipment be recognised as a financial product in GIFT IFSC. It estimates that India could deploy 650,000–700,000 GPUs over five years, representing an investment opportunity of about US\$23 billion, and covers AI servers, storage, networking and related equipment, not only chips.

An IFSC finance company could potentially import and own the equipment in the GIFT SEZ and lease it onward. Imports for authorised SEZ operations can generally access customs-duty and IGST relief. However, the consultation paper does not itself enact a new exemption, and deployment into India's Domestic Tariff Area may trigger customs and IGST consequences. Subject to the final framework, the proposal could still bring offshore capital, specialist lessors and refresh financing into India's compute build-out.

#### What investors should underwrite

The central investment question is not how many megawatts a platform can announce, but how much productive compute it can deliver from each megawatt. Four tests matter:

- **Separate capacity from utilisation.** Distinguish announced, powered, operational, contracted and profitably utilised capacity.

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- **Measure the compute layer.** Track GPU-hours, revenue per GPU-hour, cluster utilisation, cooling density, network performance and refresh obligations.
- **Match financing to asset life.** Long-life power and cooling infrastructure can support infrastructure capital; short-life GPUs need contracted demand, vendor finance, leasing or separately capitalised compute vehicles.
- **Map the tax and ownership chain.** Identify which entity imports or leases the GPUs, contracts the customer, earns export revenue and accumulates input tax credit.

For policymakers, the same logic argues for alignment rather than a blanket GST exemption: preserve zero-rating for qualifying exported compute, accelerate eligible refunds and avoid penalising domestic GPU leasing. For investors, it means treating tax-credit timing and equipment ownership as part of project returns, not as a compliance detail to be resolved after deployment.

#### From capacity to capability

India has the demand, engineering base, renewable-energy ambition and policy momentum to become a major cloud and AI-compute location. Its data-centre capacity has already multiplied, and public-private procurement is building a meaningful domestic GPU pool. The next phase will require more than land and megawatts. It will require power availability, high-density cooling, reliable networks, contracted utilisation and financing structures that recognise how quickly compute hardware ages.

The proposed tax holiday is a strong signal to global cloud providers. But the infrastructure beneath that promise will largely be financed in India, often through leasing and other structures that carry GST. If indirect-tax cash flows are ignored, the country risks offering relief on future profits while increasing the cost of the assets needed to earn them.

*The next phase of India's data-centre story will be measured not in megawatts announced, but in compute delivered, contracted and earning. Power creates capacity; GPUs, utilisation, financing and structure create value.*

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#### Sources

Union Budget 2026–27, Budget Speech and Key Features; Ministry of Electronics & IT / PIB, 13 March 2026; CBIC GST rate schedules; CGST Act, Sections 16–17 and 54; IGST Act, Section 16; IFSCA consultation paper on GPU and connected data-centre equipment leasing, 18 August 2026; JLL, 2026 Global Data Center Market Outlook; and IndiaAI Compute Capacity portal.