

Foreign Investment and the Growth of India's Data Centre Capacity

Mr. Anuroop Omkar
Honorary Director

Ms. Shikha Mishra
Consultant



Introduction

India's digital economy is entering a new phase and data centres are emerging as one of its most important foundations. From digital payments and e-governance to cloud computing and artificial intelligence ("AI"), an increasing share of economic activity now depends on the ability to store, process and protect large volumes of data. As a result, data centres are no longer simply IT facilities or real estate assets; they are becoming critical infrastructure with implications for economic resilience, national security and public trust.

India's data centre capacity more than doubled from approximately 350 MW in 2019 to 854 MW in 2023 and was projected to reach about 1,645 MW by 2026, reflecting an estimated compound annual growth rate ("CAGR") of approximately 24%.¹ This growth is being driven by rapid digital adoption, growing cloud and AI workloads, the rise of digital payments and the rollout of 5G networks.

From Digital Growth to Infrastructure Demand

Digital Adoption and Rising Data Demand- The scale of India's digital economy has fundamentally changed the infrastructure required to support it. Digital Public Infrastructure such as Aadhaar, DigiLocker, UPI process significant volumes of personal and transactional information. At the same time, enterprises across financial services, retail, telecommunications and technology are increasingly moving workloads to the cloud.

Infrastructure Requirements for Modern Data Centres- This creates demand for data centres that are not only large but also secure, reliable and capable of expanding as demand grows. Modern facilities require sophisticated IT systems, high-speed networks, redundant power supplies, advanced cooling and layered physical and cybersecurity protections.

Energy Reliability and Cooling Efficiency- Power is particularly important. Green data centres minimise their environmental impact through energy-efficient equipment and real-time monitoring; low-carbon power from solar, wind and nuclear sources, advanced cooling technologies such as liquid, direct-to-chip and immersion cooling and sustainable materials and responsible e-waste management. India plans to expand nuclear capacity from 8.78 GW to 22.38 GW by 2031–32, with a longer-term goal of 100 GW by 2047. Small Modular Reactors ("SMRs") could complement grid and renewable supplies by providing reliable, potentially off-grid power for large data centre campuses.

India's Emerging Data Centre Hubs- There is Mumbai (core market), Chennai (8 subsea cables), Pune (AI compute hub). large data centre hubs should preferably be located away from densely populated urban areas to reduce pressure on local power, water and land resources, while remaining close to high-capacity fibre networks and transport infrastructure. Andhra Pradesh is therefore can be an emerging hub, particularly the wider

¹ JLL, India's Data Centre Capacity to Reach 1.8 GW by 2027: JLL (Apr. 9, 2025), <https://www.jll.com/en-in/newsroom/indias-data-centre-capacity-to-reach-18-gw-by-2027> (Last visited 14 September 2026)

Visakhapatnam region, because of its state policy support, expanding renewable-energy base, planned data centre clusters and access to subsea connectivity. Final site selection should nevertheless account for environmental and disaster risks, dependable power and water supplies, land availability, network redundancy and appropriate distance from major residential concentrations.

Regulation is Shaping the Market

The growth of India's data centre sector is closely linked to the evolution of its regulatory framework. The **Digital Personal Data Protection Act, 2023 ("DPDP Act")** has increased the importance of lawful data processing, security safeguards and responsible data management.

For data centre operators and investors, compliance is increasingly part of the commercial proposition rather than a separate legal exercise. Facilities must be capable of supporting secure data storage, access controls, encryption, backups and disaster recovery. Depending on the nature of the information and the services being provided, operators may also need to consider requirements relating to critical information infrastructure and recognised security standards such as ISO/IEC 27001. This regulatory environment creates both obligations and opportunities. Strong compliance capabilities can become a competitive advantage for operators serving financial institutions, government bodies and other organisations handling sensitive information.

Foreign Capital and India's Emerging Data Hub

Tax Incentives Strengthen the Investment Case- India's 100% FDI route, state-level incentives and the Union Budget 2026–27 proposal operate together to lower entry barriers and provide long-term tax certainty.² The proposal grants a tax holiday until 2047 to notified foreign companies earning income from global cloud services delivered through data centres located in India, subject to prescribed conditions. Services supplied to Indian customers must be routed through an Indian reseller and remain taxable under the ordinary domestic provisions. Where the Indian data centre operator is a related entity, a proposed safe harbour permits a 15% mark-up on relevant costs, reducing transfer-pricing uncertainty. The benefit is therefore targeted at export-oriented global cloud income rather than a blanket exemption for all data centre or domestic revenue, and its final scope will depend on enacted legislation and implementing notifications.

Hyperscaler Investment Accelerates Capacity- Greater tax certainty strengthens India's cost advantage and encourages global cloud and AI companies to commit capital and build more of their own capacity in the country.

Investment Spreads Across the Supply Chain- The resulting expansion creates opportunities in construction, power infrastructure, advanced cooling, IT equipment and skilled services, while bringing global operating expertise into the domestic ecosystem.

² Press Information Bureau, Government of India, *Budget 2026–27 Sets the Stage for India as a Global Hub for Cloud and AI Infrastructure* (Feb. 14, 2026), <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2227953®=48&lang=2> (Last visited 14 September 2026)

Investment Requires More Than Land and Servers

Although demand is strong, developing a data centre is a capital-intensive exercise. Investment is required across land, civil construction, electrical systems, cooling, connectivity and technology infrastructure.

According to JLL projections cited in the underlying analysis, approximately US\$5.7 billion in capital expenditure was expected during 2024–2026, including around US\$1.1 billion for civil construction and US\$4.5 billion for mechanical, electrical and plumbing infrastructure. Mumbai was projected to account for approximately 46% of this investment, followed by Chennai at 27% and Delhi NCR at 7%.³

The legal framework supporting these investments is equally important. Projects may involve joint ventures, land and lease arrangements, power purchase agreements, construction contracts, technology agreements and operation and maintenance arrangements. Clear allocation of risk, liability, performance obligations and exit rights is essential.

Land acquisition also requires careful due diligence covering title, encumbrances, zoning, environmental approvals and development permissions. For investors, these issues can determine whether a project progresses smoothly or faces costly delays.

The Sustainability and AI Imperative

India's next phase of data centre growth will be shaped by AI and sustainability. Rising cloud, AI, 5G and digital demand will intensify pressure on power, water and skilled talent. Grid delays and diesel backup increase costs and emissions, making renewable procurement, long-term power purchase agreements, battery storage and efficient grid integration increasingly important as India works towards 500 GW of non-fossil capacity by 2030.⁴

AI workloads also require denser computing, greater power and advanced cooling, accelerating adoption of liquid cooling and high-efficiency infrastructure. Water availability, energy efficiency, lower emissions and responsible resource use will increasingly influence site selection and investment decisions.⁵ At the same time, specialised skills in power, cooling, networking and digital infrastructure will be essential, while 5G and IoT will expand demand for edge data centres that support low-latency applications.⁶

³ JLL, Data Centre Boom to Drive 10 Mn Sq. Ft. Real Estate Demand by 2026 (May 22, 2024), <https://www.jll.com/en-in/newsroom/data-centre-boom-to-drive-real-estate-demand-investments-by-2026> (Last visited 14 September 2026)

⁴ FE Bureau, Explainer: What's Driving the Rush for Data Centres, FINANCIAL EXPRESS (Nov. 28, 2025), <https://www.financialexpress.com/life/technology/explainernbspwhats-driving-the-rush-for-data-centres/4059456/> (Last visited 15 September 2026)

⁵ Press Information Bureau, *India Achieves 50% Non-Fossil Fuel Installed Electricity Capacity Ahead of Target*, Ministry of Power, Gov't of India (Feb. 5, 2026), (Last visited 15 September 2026) <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2223720®=3&lang=2>

⁶ ETDatacenters, India Data Centre Capacity Boom Faces Critical Talent Shortage (Sept. 8, 2026), <https://datacenters.economictimes.indiatimes.com/news/operations-resilience/india-data-centre-capacity-boom-faces-critical-talent-shortage/133905083> (Last visited 15 September 2026)

Policy Support and Way Forward

India should turn the National Single Window System into a truly predictable approval route by setting clear, time-bound processes for land, power, connectivity and construction across states. It should also introduce a simple national reporting standard for energy use, water consumption and efficiency, and link practical sustainability requirements to project approvals without creating a burdensome licensing regime.

A common baseline for reliability, security, transparency and customer commitments would strengthen trust without over-regulating the sector. As AI raises demand for power, land and connectivity, governments should plan these resources together and identify suitable growth corridors early. The goal should be straightforward to remove avoidable delays, reward efficient and responsible projects, and give investors the certainty to build for India's long-term digital needs.

Conclusion

India's data centre market is reaching a point where regulatory readiness will matter as much as demand. For foreign investors, the opportunity is not simply to fund capacity, but to shape the infrastructure on which India's AI, financial and public-service systems will depend.

That opportunity carries execution risk. Investors must test central and state incentives against their conditions, conduct rigorous land, zoning and environmental diligence, structure foreign investment and tax arrangements carefully, and build data-protection, cybersecurity, power and water obligations into the project from the outset.

The decisive question is therefore not whether India will need more data centres, but whether projects can secure dependable resources, approvals and regulatory certainty quickly enough to remain viable. A disciplined legal and operating strategy can turn foreign capital into durable digital infrastructure, without it, headline incentives may be outweighed by delay, resource constraints and compliance exposure.