

September 29, 2022^(Revised)

Sify Technologies Limited: Ratings reaffirmed, assigned for enhanced limits

Summary of rating action

Instruments*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund Based Term loans	107.07	96.00	[ICRA]A+(Stable); reaffirmed
Long Term: Fund based limits	194.00	247.00	[ICRA]A+(Stable); reaffirmed/assigned
Long Term: Non-Fund based limits	206.00	220.00	[ICRA]A+(Stable); reaffirmed/assigned
Long Term/Short Term: Non-Fund based limits	47.00	114.00	[ICRA]A+(Stable)/[ICRA]A1+; reaffirmed/assigned
CP programme	50.00	50.00	[ICRA]A1+; reaffirmed
Total	604.07	727.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Sify Technologies Limited (STL/'Sify') and its subsidiaries, namely Sify Infit Spaces Limited (SISL) which manages the data center (DC) business and Sify Digital Services Limited (SDSL) which handles the cloud and managed services, applications integration services and technology integration services.

The ratings remain supported by the long-standing operational track record of STL group in Information, Communication and Technology (ICT) business, vast experience of the promoter and strong management profile, and its strong operational profile marked by a diversified segmental mix, reputed customer base in both telecom and DC segments, relatively low concentration-related risks etc. The large investments made by customers in the data center segment and the downtime risks associated with shifting ensure high customer stickiness in the DC business, as evident from its long-term relationship with the customers. The ratings also consider the favourable demand outlook for STL group's business aided by Government's thrust on digitisation including creation of smart cities, schemes like Digital India, providing infrastructure status, and extending fiscal incentives for establishing DCs and cloud-related services.

Sify's financial profile is characterised by improving scale of operations, stable earnings, and moderate debt protection metrics. For FY2022, STL group's consolidated revenues grew by ~11% YoY supported primarily by strong growth in DC segment (up 35% YoY) and digital services segment (up 24% YoY) while telecom segment grew by 10% YoY. The consolidated operating margins expanded by 150 bps to 22.3% in FY2022, with scale up of DC-centric IT services which command relatively better margins. DC's share in the consolidated revenues have more than doubled in the last four years (~ 28% in FY2022) with steady addition of capacities and new customer sign-ups. Despite higher operating margins, the net margins contracted by over 150 bps y-o-y due to deferred tax adjustments in FY2021. In Q1 FY2023, the group's revenues grew by 13.3% QoQ and 14.1% on an annualised basis over FY2022 revenues while its operating and net margins stood at 19.8% and 3.5% respectively.

The ratings however remain constrained by the capital-intensive nature of business, and lower return on capital employed (RoCE) levels. Inherent to its nature of business, the capital costs in networking segment remain dependent on the need for maintenance of network links; while in the DC business, the group has scaled up its investments in recent period given a strong demand outlook. The ratings also consider the moderate working capital intensity on the back of long receivable cycle, vulnerability of its earnings to the competition in the industry and regulatory related risks.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that Sify will continue to benefit from its established presence in the ICT business, diversified client profile, increasing thrust on digitisation and favourable industry outlook for DCs.

Key rating drivers and their description

Credit strengths

Strong commitment of promoter and vast experience of management team – Mr. Raju Vegesna, the Chairman and Managing director of Sify Technologies, has vast experience in the technology space and has exhibited strong commitment to the business. The promoter infused an aggregate amount of Rs. 970 crore over the past several years. Sify's senior management team also consists of professionals having extensive experience in the technology domain.

Established presence in converged ICT solutions business – Sify is an established converged ICT solutions player in the country, offering networking, affiliated managed services, data center and other related solutions. The company has a wide network covering more than 1,600 towns and cities, which between themselves have more than 1,25,000+ links and 3,150 points of presence, making Sify one of the large MPLS refers to Multiprotocol Label Switching (MPLS) network service providers supporting businesses with last mile connectivity on both wireless and wired lines. The network segment is augmented by Sify's 11 concurrently managed data centers and digital services which gives the company a strong presence in the entire ICT spectrum. The company is expected to benefit across the segments owing to favourable demand outlook driven by increased digitisation, data consumption, benefits arising from 5G rollouts and various government measures like infrastructure status for DCs and schemes like Digital India.

Strong operational profile – Sify derives its revenues from three broad segments, namely enterprise network segment (44% of the consolidated revenues in FY2022), DC (28%) and Digital services (28%). The presence of Sify across the ICT gamut obviates the need for customers to engage with multiple vendors for diverse technology requirements. Also, the presence of customers across multiple segments ensures long-term stickiness with Sify. The rise in the revenues have been triggered by increasing cloud adoption, increased demand for bandwidth and links in the data business, improvement in demand for DCs resulting in increased capacity utilisation and shift from on-premise to public cloud. Further, the company has a corporate customer base of 10,000+ clients spread across BFSI, ITeS, heavy engineering, manufacturing, Government, retail, and pharmaceuticals verticals and hence, remains protected from downturn in any specific segment or industry.

Consolidated margins seen improving with rising share of business from DC segments – In FY2022, Sify reported a 150 bps expansion in operating margins to 22.3% (FY2021: 20.8%), primarily aided by increased contribution of DC-centric IT services. Although DC is a capex-heavy segment and entails a long gestation period, the margins are high, supported by improving utilisation levels, repeat orders from the existing customers and signing of new contracts with reputed clients. The margins in the DC business improve as utilisation improves, resulting in better absorption of fixed costs. The contract with the customers includes a fixed component and a variable component which is based on the usage of power.

Sify enjoys an early-mover advantage in the segment and has an established relationship with a renowned customer base. The company currently operates 11 concurrently maintainable tier-III DCs with ~101 MW capacity (utility), of which six are located in Mumbai, one each at Noida, Chennai, Bengaluru, Kolkata and Hyderabad. Most of these investments are backed by long-term contracts with marquee clients that have in turn made large investments in these DCs. This makes switching costs high for the customers and lend long-term visibility and stability to Sify's revenues. Sify's ability to scale up within the vicinity of the existing DCs, availability of adequate land bank and capital for expansion of capacities would be a key competitive advantage. Moreover, it has a demonstrated ability to customise its offerings to suit client requirements, which helps in its pricing advantage.

Credit challenges

Large debt-funded capex leading to moderate debt indicators and RoCE levels - With higher thrust on digitalisation and cloud-related services and the increasing demand for DC business and need for maintenance of connectivity links, the company's business profile remains characterised by need for periodical investments. The overall capex spend is estimated at ~Rs.1,800 crore over the next three years. Apart from the tie-ups with banks for term loans, the company has also tied up with Kotak Special Situations Fund (KSSF) for a funding of Rs. 1000.0 crore through Compulsory Convertible Debentures (CCDs) for capacity expansion and working capital purposes for its data center business. KSSF has already infused Rs. 202.0 crore as on March 31, 2022 and ~Rs.198.0 crore is expected in H2 FY2023. KSSF has the option and right to subscribe to additional CCDs to the tune of Rs. 600.0 crore until October 01, 2026. While the margin profile shall improve with large part of investments done towards DC business, the consolidated debt metrics and RoCE levels are expected to be moderated. Nevertheless, the group enjoys strong financial flexibility and commitment from promoters (thus insulating from project completion and ramp up risks. For FY2022, Sify's interest cover and net debt to OPDBITA was 5.5x and 2.1x respectively while core RoCE was ~13%.

High working capital intensity and competition related risks – Sify derives a part of its businesses from the Government and PSU clients where the payment terms are relatively longer, which has resulted in an elongated receivables position. Though part of the same is offset by relatively favourable credit terms with suppliers, the working capital cycle remains high. In FY2022, the receivables have declined supported by better collections of large contract receivables from Government and PSUs, and selective project selections. Sify's ability to improve working capital cycle remains a key monitorable.

Competition risks – STL group is vulnerable to competition related risks. Given the favourable demand outlook, DC business is witnessing sizeable capacity addition from existing peers and entry of new incumbents, and this is likely to affect the pricing in the industry in medium to long-term. While long track record of operations, higher customer stickiness, along with the long-standing strategic relationship with its customers provide competitive advantage in existing business, elevated competition could exert pressure on the operating margins of incremental business. In the data and voice business, competitive pressure is mitigated to some extent due to high entry barriers and Sify's unique positioning in domestic connectivity industry being a pure play enterprise player mitigates the risk.

Liquidity position: Strong

Sify's liquidity position is **strong** with cash accruals of Rs. 450.6 crore in FY2022. Sify's working capital utilisation is supported by moderate undrawn lines as on July 31, 2022. Going forward, the company has repayment obligations of ~Rs. 274 crore in FY2023 (including lease obligations) and shall increase as Sify ties up funds for funding its proposed capex plans. Sify's cash balance was Rs. 379.4 crore as on June 30, 2022. Its large capex plan over the next three years is expected to be adequately funded through mix of internal accruals, term loans, funding from KSSF and cash balances, and accordingly group's liquidity position is expected to remain strong going forward.

Rating sensitivities

Positive Factor: ICRA could upgrade the ratings if Sify group demonstrates sustained scale up in its operations and earnings while improving its RoCE levels, debt protection metrics and working capital intensity.

Negative Factor: Negative pressure on Sify's ratings could arise with a sharp deterioration in group's profitability or debt coverage metrics emanating from a higher-than-expected debt funded capex (or) stretch in receivables. Specific metrics that could lead to a rating downgrade include Debt Service Coverage Ratio (DSCR) of less than 1.5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology – Information Technology (Services)
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Sify; As on March 31, 2022, the company has six wholly owned subsidiaries.

About the company

Incorporated in 1995 as Satyam Infoway Limited, Sify Technologies Limited (Sify) is one of major ICT service providers in India. Mr. Raju Vegesna, a technocrat, is the Chairman and holds an 84% stake in the company. Sify is listed on the NASDAQ and the remaining stakes are held in the form of ADRs. Operating largely in the domestic market, Sify's revenue streams originate from the following segments—telecommunication, data centre, cloud and managed services, application integration, and TIS. Sify has also six wholly-owned subsidiaries—Sify Technologies (Singapore) Pte Limited, Sify Technologies North America Corporation, Sify Infnit Spaces Limited, Sify Digital Services Limited, Print House (India) Private Limited and Sify Data and Managed Services Limited. The latter was incorporated in FY2017 for setting up a greenfield DC in Chennai.

Key financial indicators

Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	2,432.0	2,702.6
PAT (Rs. crore)	153.2	127.3
OPBDIT/OI (%)	21.0%	22.3%
PAT/OI (%)	6.3%	4.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	2.2
Total Debt [^] /OPBDIT (times)	2.3	2.9
Interest Coverage (times)	5.3	5.5

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; [^] including lease liabilities;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		
							29-Sep-22	30-Sep-21	14-Sep-20	15-Jul-20	18-Oct-19
1	Term Loan	Long Term	96.00	27.43	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund based	Long Term	247.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non-Fund based	Long Term	220.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Non-Fund based	Long Term/Short Term	114.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+
5	Non-Fund based	Short Term	0	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Proposed facilities	Long Term/Short Term	-	-	-	-	-	-	-	[ICRA]A+ (Stable)/ [ICRA]A1+	-
7	NCD proposed	Long Term	-	-	-	-	-	-	-	-	[ICRA]A+ (Stable); withdrawn
9	Commercial paper	Short Term	50	-	[ICRA]A1+	-	[ICRA]A1+	-	-	-	[ICRA]A1+; withdrawn

Source: Company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term: Fund Based Term Loans	Simple
Long Term: Fund based limits	Simple
Long Term: Non-Fund based limits	Simple
Long Term/Short Term: Non-Fund based limits	Simple
CP programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan*				96.00	[ICRA]A+ (Stable)
NA	Fund based facilities				247.00	[ICRA]A+ (Stable)
NA	Non-Fund based facilities				220.00	[ICRA]A+ (Stable)
NA	Non-Fund based facilities				114.00	[ICRA]A+ (Stable)/[ICRA]A1+
Yet to be placed	Commercial Paper				50.00	[ICRA]A1+

Source: Company; *Date of issuance and maturity not available as it depends on drawdown.

Please click [here](#) to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Sify Technologies Singapore Pte Limited	100%	Full consolidation
Sify Technologies North America Corporation	100%	Full consolidation
Sify Data and Managed Services Limited	100%	Full consolidation
Sify Infinit Spaces Limited	100%	Full consolidation
Sify Digital Services Limited	100%	Full consolidation
Print House (India) Private Limited	100%	Full consolidation

Source: Company

Corrigendum

[Link to Rating Methodology - Information Technology \(Services\)](#) has been added in the Applicable Rating Methodologies table.

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