

March 16, 2023

Sify Infinit Spaces Limited: Long-term Rating upgraded, Short term rating reaffirmed, ratings assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund Based Term loans	1,989.77	2,531.95	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable) and assigned for enhanced limits
Long Term: Fund based limits	136.00	127.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Long Term: Non-Fund based limits	57.00	75.00	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable) and assigned for enhanced limits
Long Term/Short Term: Non-Fund based limits	15.00	15.00	[ICRA]AA- (Stable)/[ICRA]A1+; Long term rating upgraded from [ICRA]A+ (Stable), short term rating reaffirmed.
Total	2,197.77	2,748.95	

*Instrument details are provided in Annexure-1

Rationale

The rating action on the bank facilities of Sify Infinit Spaces Limited (SISL) considers the strong demand prospects for data center (DC) business, improving capacity utilisation levels, healthy revenue visibility on the back of long-term agreements with reputed clients, and growing scale of operations and its associated benefits. Factors like Government's thrust on digitisation, creation of smart cities, Digital India schemes, infrastructure status for DC business, and fiscal incentives for establishing DCs and cloud-related services etc. auger well for DC demand over the medium to long-term. The ratings remain supported by the strong operational track record of its parent, Sify Technologies Limited (STL) in the Information, Communication and Technology (ICT) business, vast experience of the promoter and strong management profile, and long-term relationship with its reputed clients.

SISL's financial profile is characterised by improving scale of operations, stable margins, and moderate debt protection metrics. The customer stickiness in DC business is high given the sizeable investment commitments of customers and the downtime-related risks upon shifting, thus providing healthy revenue visibility for SISL going forward. During 9M FY2023, SISL's revenues grew by ~34% on an annualized basis supported by execution of the recently signed contracts and enhanced capacity utilisation by existing customers, while the adjusted (for intercompany transactions) OPBDITA margins was 41.3% (vs. ~43% in FY2022) moderating on the back of higher one-time transmission costs. The margins are supported by the fixed-price nature of contract and pass-through of power costs to the customers.

The ratings are, however, constrained by the capital-intensive nature of business, lower return on capital employed (RoCE) levels, moderate working capital intensity on the back of long receivable cycle, vulnerability of earnings to the competition in industry and regulatory related risks. With a favourable demand outlook, SISL has scaled up its investments and has a sizeable capex plan of ~Rs. 2,100.0 crore to be spent between FY2023-FY2025. ICRA notes that the company has tied up its funds through mix of term loans and Compulsorily Convertible Debentures (CCD) from Kotak Special Situations Fund (KSSF). While the leverage metrics shall moderate on the back of debt funded capex, DSCR is expected to be comfortable in the range of 1.5x-1.7x in the medium term.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that SISL will continue to benefit from its established presence in the DC business, reputed client profile, increasing thrust on digitisation and favourable industry outlook.

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 its parent, Sify Technologies Limited (STL), has vast experience in the technology space and has exhibited strong commitment to the business. The promoter had infused an aggregate amount of Rs. 970 crore in STL over the past several years. Sify's senior management team also consists of professionals having extensive experience in the technology domain.

Strong operational profile – SISL has more than two decades of experience in providing colocation services in India, which allow customers to bring their own rack-mountable servers and house them in shared racks at the hosting facility as per their application requirements. SISL enjoys an early-mover advantage in the segment and has an established relationship with its renowned customer base. SISL currently operates 11 concurrently maintainable tier-III DCs with ~101 MW capacity (utility), of which six are in Mumbai, one each at Noida, Chennai, Bengaluru, Kolkata, and Hyderabad. The capacity utilisation is healthy at ~86.3% as on September 30, 2022.

Most of these investments are backed by long-term contracts with marquee clients who in turn have large investments commitment in these DCs. This makes switching costs high for the customers and lend long-term visibility and stability to SISL's revenues. SISL's ability to scale up within the vicinity of existing DCs, availability of adequate land bank and capital for expansion of capacities are key competitive advantages. Moreover, it has a demonstrated ability to customise its offerings to suit client requirements, which helps in its pricing advantage. The customer base is spread across BFSI, major global hyperscalers and government institutions and hence, remains largely protected from downturn in any specific segment or industry. Comfort is also taken from the fact that the major portion of the capacity expansion being undertaken is already tied up by customer, which gives healthy revenue visibility.

Favourable demand prospects for data centers – The industry is witnessing a steep uptick in demand as against relatively lower supply, on the back of Government's thrust on digital India, 5G roll out, adoption of new technologies, growing userbase for social media, gaming, e-commerce, increased use of cloud adoption and OTT platforms. This, coupled with covid has resulted in accelerating the digital adoption across government and private enterprises. Favourable demand dynamics have also been driven by regulatory policies viz the Digital Data Protection Bill 2022, infrastructure status to data centres, fiscal incentives from Central and state governments are expected to boost DC investments in the country.

Credit challenges

Highly capital-intensive nature of business- With higher thrust on digitalisation and cloud-related services and the increasing demand for DC business, SISL's business profile remains characterised by need for periodical investments. The overall capex spend is estimated at ~Rs.2,100 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 up to Rs. 1,000.0 crore through Compulsory Convertible Debentures (CCDs) for capacity expansion and working capital purposes for its data center business.

KSSF has already infused Rs. 400.0 crore as on December 31, 2022. 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 once the new capacities stabilise, the RoCE levels are expected to at moderate levels. Nevertheless, the group enjoys strong financial flexibility and commitment from promoters (thus insulating from project completion and ramp up risks). The Net Debt/Adj. OPBDITA stood at around 4.6x as on December 31, 2022. The same is expected to remain moderate between 3.0x-4.0x in the next three fiscals.

High working capital intensity - SISL derives a part of its businesses from PSU clients and hyperscalers with higher bargaining power where the payment terms are relatively longer, this 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. SISL's ability to improve working capital cycle remains a key monitorable.

Competition risks – SISL 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. ICRA expects a capex of Rs. 1.5 lakh crore in the next six years from major players, with a capacity addition of 4,900Mw-5,000Mw.

Liquidity position: Adequate

SISL’s liquidity position is **adequate** with cash accruals of Rs. 236.4 crore in FY2022 and Rs. 202.6 crore in the 9M FY2023 period. The company’s working capital utilisation is supported by moderate undrawn lines as on December 31, 2022. Going forward, it has repayment obligations of ~Rs. 130-Rs. 150.0 crore in the next three fiscals and shall increase as the company ties up / draws down funds for funding its proposed capex plans. The cash balance was Rs. 184.7 crore as on December 31, 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 the liquidity position is expected to remain adequate going forward.

Rating sensitivities

Positive Factor: ICRA could upgrade SISL’s ratings with enhanced utilization of DC capacities leading to sharp and sustained improvement in earnings, cashflow position and debt protection metrics.

Negative Factor: Negative pressure on SISL’s ratings could arise from slow ramp-up of DC operations (from its ongoing capex) leading to sharp deterioration in earnings, credit metrics, and / or liquidity profile. Specific metrics that could lead to a rating downgrade include DSCR <1.5x on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	ICRA has factored in the implicit parent support of Sify Technologies Limited, on the back of strong operational linkages between the companies.
Consolidation/Standalone	For arriving at the ratings, ICRA had taken consolidated view of the group, which has been revised to Standalone view, factoring in the implicit support from parent (operational and financial linkages).

About SISL

SISL is a wholly owned subsidiary of Sify Technologies Limited. SISL currently operates 11 concurrently maintainable tier-III DCs with ~101 MW capacity (utility), of which six are in Mumbai, one each at Noida, Chennai, Bengaluru, Kolkata and Hyderabad.

About the group

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.

Key financial indicators

Standalone- SISL	FY2021	FY2022
Operating Income (Rs. crore)	562.9	758.2
PAT (Rs. crore)	78.9	85.8
OPBDIT/OI (%)	44.1%	43.1%
PAT/OI (%)	14.0%	11.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	2.1
Total Debt/OPBDITA (times)	2.2	3.5
Interest Coverage (times)	5.3	5.9

Consolidated (STL)	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/OPBDITA (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;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2022 (Rs. crore)	Current Rating (FY2023)		Chronology of Rating History for the past 3 years			
				Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				March 16, 2023	Sep 29, 2022	Oct 04, 2021	-	-	
1	Term Loan	Long Term	2,531.95	791.39	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	-	-
2	Fund based	Long Term	127.00	-	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	-	-
3	Non-Fund based	Long Term	75.00	-	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	-	-
4	Non-Fund based	Long Term/Short Term	15.00	-	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]A+(Stable) / [ICRA]A1+	[ICRA]A+(Stable) / [ICRA]A1+	-	-

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan*	-	-	-	2531.95	[ICRA]AA-(Stable)
NA	Fund based facilities	-	-	-	127.00	[ICRA]AA-(Stable)
NA	Non-Fund based facilities	-	-	-	75.00	[ICRA]AA-(Stable)
NA	Non-Fund based facilities	-	-	-	15.00	[ICRA]AA-(Stable)/[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: Not applicable

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About ICRA Limited:

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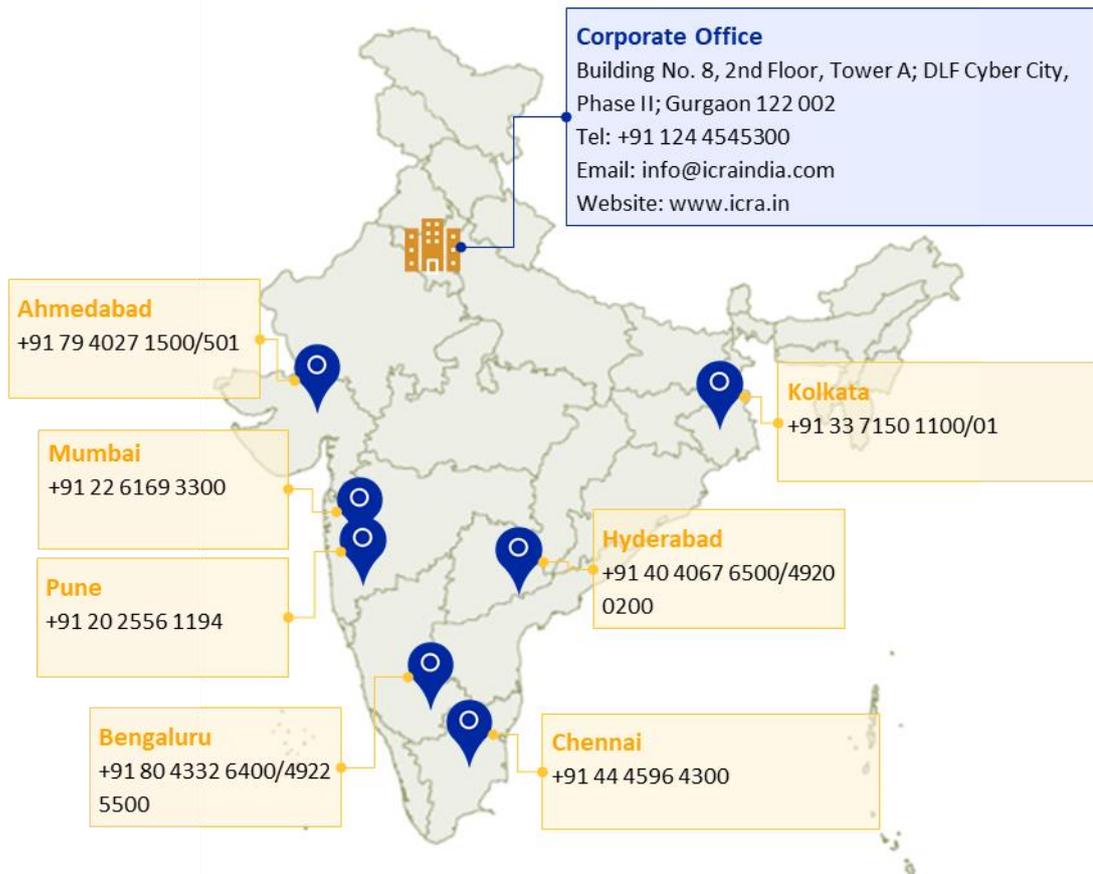
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