September 30, 2024

Sify Technologies Limited: Ratings Reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based Term loans	342.00	397.50	[ICRA]AA- (Stable); reaffirmed and assigned for enhanced amount
Long Term - Fund based limits	275.00	275.00	[ICRA]AA- (Stable); reaffirmed
Long Term - Non-Fund based limits	238.00	238.00	[ICRA]AA- (Stable); reaffirmed
Long Term/Short Term - Non-Fund based limits	94.00	229.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed and assigned for enhanced amount
CP programme	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**999.00**	**1,189.50**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the debt instruments of Sify Technologies Limited (STL) considers ICRA's expectation of an improvement in the company's consolidated financial profile in the near-to-medium term on the back of favourable demand prospects for its telecom and data center (DC) businesses. Its long-term associations and service agreements with customers in the DC business provide revenue and cash flow visibility over the medium-to-long term. STL's established presence in the information, communication and technology (ICT) business, vast experience of the promoter, strong management profile and a stable operational profile, which is marked by a diversified segmental mix, reputed customer base and low customer concentration risks support the ratings.

STL's consolidated revenues grew by ~7% YoY in FY2024, supported primarily by the growth in DC business. DC's share in the consolidated revenues (~31% in FY2024) has gradually increased in recent years with steady capacity additions and new customer sign-ups and is likely to increase considerably in the next few years with incremental capacities being added. The consolidated operating margins were range-bound at 19.1% in FY2024 (against 18.9% in FY2023) and are supported by higher revenue share from the DC business, while at the net level, the profits were affected by higher interest costs and depreciation charges. While an improving product mix is likely to aid margin expansion going forward, STL's ability to reduce operating costs across segments is a key monitorable.

The ratings also consider the capital-intensive nature of its operations, lower return on capital employed (RoCE) levels, long albeit improving receivables cycle, the vulnerability of earnings to the competition in the industry and regulatory-related risks. Inherent to the nature of its business, capital costs in the networking segment are dependent on the need for expansion and maintenance of network links; while in DC business, the investments are continuing amid a favourable long-term demand outlook. The total capex and investments across segments are pegged at ~Rs. 3,000.0 crore over the next three years. The company has tied up its funds through a mix of term loans and compulsorily convertible debentures (CCD) from Kotak Special Situation Fund (KSSF) and Kotak Data Center Fund (KDCF). This apart, the company raised Rs. 250.0 crore through rights issue and is also proposed NCDs (through its subsidiary) to refinance its term loans with a 15-year tenor (including a 5-year moratorium) for Rs. 250.0 crore. This, coupled with the expected improvement in operating profits, is likely to support its debt protection metrics. Upon excluding the Rs. 120.0 crore of CCDs and lease liabilities pertaining to right of use asset, the company's adjusted net debt / OPBITDA is ~2.5 times in FY2024. However, with the ramp-up of DC capacities and consequent improvement in scale and margins, STL's earnings, cashflows and debt-related metrics are expected to improve to over the next 12-24 months.

The Stable outlook on the long-term rating reflects ICRA's opinion that STL's credit profile will be supported by 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

Vast experience of the promoters and strong management team - Mr. Raju Vegesna, the Chairman and Managing director of Sify Technologies, has vast experience in the technology space and has exhibited a strong commitment to the business. Sify's senior management team also includes professionals with extensive experience in the technology domain.

Established presence in converged ICT solutions business - STL is an established converged ICT solutions player in the country, offering networking, affiliated managed services, data centres and other related solutions. It has a wide network covering over 1,600 towns and cities, with more than 1,25,000+ links and 3,700 plus points of presence between cities, making Sify one of the large 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 its 12 concurrently managed data centers and digital services, ensuring the company's strong presence in the entire ICT spectrum. It 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 such as infrastructure status for DCs and schemes like Digital India.

Strong operational profile - STL derives revenues from three broad segments, namely enterprise network segment, DC and digital services. Its presence 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 revenues has been triggered by increasing cloud adoption, growing demand for bandwidth and links in the data business and improvement in demand for DCs, resulting in increased capacity utilisation and a shift from on-premises to public cloud. Further, it has a large corporate customer base spread across BFSI, ITeS, heavy engineering, manufacturing, government, retail, and pharmaceuticals verticals and hence, remains protected from downturn in any specific segment or industry.

Favourable demand prospects - The increasing penetration of DCs, which requires networks for data transfer, is expected to boost STL's revenues in the telecom segment going forward. It already caters to 65 data centers in the country, including Sify's 12 captive data centers. In the DC business, demand remains supported by the Government's thrust on digitisation, including the creation of smart cities, schemes like Digital India, providing infrastructure status for DCs, and extending incentives for establishing DCs and cloud-related services. It has commissioned capacities of over 100 MW until FY2024 and is adding another ~25-35 MW in FY2025. STL enjoys an early-mover advantage in the segment and has an established relationship with a renowned customer base. Amid the growing demand, STL's ability to scale up within the vicinity of the existing DCs and the availability of adequate land bank and capital for expansion of capacities would be a key competitive advantage.

Credit challenges

Highly capital-intensive nature of business – With a higher thrust on digitalisation and cloud-related services and the increasing demand for DC business and the need for maintenance of connectivity links, the business profile remains characterised by need for periodical investments. STL intends to incur a capex of Rs. 150.0-200.0 crore per annum in the telecom business funded through the deployment of funds raised from rights issue of Rs. 250.0 crore, internal accruals and term loans in the medium term towards expansion and network fibres. Going forward, the capex in the telecom business is expected to sustain in the light of 5G rollouts. The overall capex spend in the DC business is estimated at ~Rs. 2,500 - 3,000 crore in the next three years. Apart from the tie-ups with banks for term loans, it has also tied up with KDCF and KSSF for the funding of Rs. 1,600 crore through CCDs owing to capacity expansion and working capital requirements for its DC business. An amount of Rs. 400.0 crore has been infused by KSSF and Rs. 600.0 crore by KDCF crore until March 31, 2024. While the margin profile shall improve with a large part of investments done towards DC business, the consolidated debt metrics and RoCE levels will be impacted in the near term. However, with the expected scale-up of operations and improved margins, debt metrics and RoCE are expected to improve in the next 12-24 months. Moreover, the Group enjoys strong financial flexibility and commitment from its promoters, thus insulating from project completion and ramp-up risks to an extent.

Long receivables cycle – Sify derives a part of its businesses from the Government and PSU clients where the payment terms are relatively longer, resulting in an elongated receivables position. In the recent past, the receivable period improved supported by better collections of large contract receivables from the Government and PSUs, and selective project selections. Sify's ability to further improve the debtor receivable cycle remains a key monitorable

Competition risks – The STL group is vulnerable to competition-related risks. Given the favourable demand outlook, DC business is witnessing a sizeable capacity addition from existing peers and the entry of new incumbents, which are likely to affect the pricing in the industry in the medium-to-long term. While a long track record of operations, higher customer stickiness and established strategic relationships with its customers provide a 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 the domestic connectivity industry as a pure-play enterprise player mitigates the risk.

Longer than expected recovery in digital services business – STL, through its subsidiary - Sify Digital Services Limited (SDSL), offers various digital services like network centric services, cloud and managed services, applications integration services and technology integration services. The digital services business has a requirement for high-skilled talent and upfront investments in manpower. Build of manpower to cater to the order pipeline has resulted in operating losses for this segment in FY2024. Receivables in the business have also remained elongated as on March 31, 2024. Margins in digital business are expected to improve over the medium term with the scaling of revenues, driven by the ramp-up of project executions. However, ICRA expects a longer-than-expected recovery in this segment, given the requirement of manpower upfront. The company has decided to reduce the size of the unprofitable and low-growth segments as a part of its downsizing strategy. Going forward, the cloud and managed services are expected to drive the digital services business.

Environment and Social Risks

Environment

Energy efficiency and sustainable sourcing of power are critical for data centers, which ensure the smooth conduct of business operations. The capability to source cost-effective sustainable power would be critical going forward. STL, in its recently deployed data centers, has adopted advanced technologies and has been executing energy-efficient strategies. Sify becomes First in India to Achieve NVIDIA DGX-Ready Data Center Certification for Liquid Cooling to Enable Breakthrough AI Performance. With the NVIDIA DGX platform and its supporting infrastructure technology ecosystem, Sify customers now have access to high-density supercomputing and powerful performance, offered in scalable and flexible AI infrastructure solutions and accessed through an extensive co-location footprint. The entity has also adopted the Environment Impact Assessment guidelines prescribed by the Ministry of Environment and Forests (MoEF). During the construction and operations phase of its DCs, it conducts regular audits every six months, and the findings are submitted to the MoEF. Sify has also tied up with authorised vendors for the buyback of components such as batteries and others. Overall, STL has taken adequate measures to meet all Government regulations and uses sustainable sourcing of power to minimise any business disruptions. Further, STL has been offering networking and data center services for close to two decades and their services have been at par with industry standards.

Social

STL has been offering networking and data center services over years. Inherently the business is exposed to general social risks but the company's longstanding presence and contractual agreements with its clientele insulates the same

Liquidity: Adequate

STL's liquidity position is adequate, supported by its retained cash flows of ~Rs. 575.6 crore in FY2024 and consolidated free cash balance of ~Rs. 662.2 crore as on March 31, 2024. The consolidated working capital utilisation is supported by undrawn lines of ~Rs. 326.0 crore (against sanctioned limits) as on June 30, 2024. Going forward, the company has repayment obligations of ~Rs. 280.0-320.0 crore in FY2025 (including lease obligations). Its large capex plan over the next three years is expected to be funded through a mix of internal accruals, term loans, funding from KSSF (Rs. 600 crore of undrawn funds available) and cash balances. The Group's liquidity position is expected to remain adequate going forward.

Rating sensitivities

Positive Factor - ICRA could upgrade STL's ratings with sustained improvement in operational profile (DC utilisation and ramp up of telecom operation) and material improvement in consolidated earnings, cashflow position and debt protection metrics.

Negative Factor - Pressure on STL's ratings could arise from a material deterioration in consolidated earnings and credit metrics, and / or sharp weakening of the liquidity profile. Specific metrics that could lead to a rating downgrade include net debt/ OPBDITA >3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology IT - Software & Services Realty – (Lease Rental Discounting)
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of STL (including its seven wholly owned subsidiaries).

About the company

Incorporated in 1995 as Satyam Infoway Limited, Sify Technologies Limited (Sify) is one of the 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, the entity's revenue streams originate from the following segments—telecommunication, data centre, cloud and managed services, application integration and TIS. Sify also has seven wholly-owned subsidiaries—Sify Technologies (Singapore) Pte Limited, Sify Technologies North America Corporation, Sify Infinit Spaces Limited, Sify Digital Services Limited, SVKR Software Solutions Private Limited and Sify Data and Managed Services Limited.

Key financial indicators (audited)

Consolidated – STL	FY2023	FY2024
Operating income	3,340.4	3,563.4
PAT	67.5	4.9
OPBDITA/OI	18.9%	19.1%
PAT/OI	2.0%	0.1%
Total outside liabilities/Tangible net worth (times)	2.3	1.9
Total debt/OPBDITA (times)	3.6	4.1
Interest coverage (times)	3.8	3.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Current Rating (FY2025)			Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Sep 30, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	397.50	[ICRA]AA- (Stable)	12-Sep-23	[ICRA]AA- (Stable)	16-Mar-23	[ICRA]AA- (Stable)	30-Sep-21	[ICRA]A+ (Stable)
						29-Sep-22	[ICRA]A+ (Stable)		
Fund based	Long Term	275.00	[ICRA]AA- (Stable)	12-Sep-23	[ICRA]AA- (Stable)	16-Mar-23	[ICRA]AA- (Stable)	30-Sep-21	[ICRA]A+ (Stable)
						29-Sep-22	[ICRA]A+ (Stable)		
Non-Fund based	Long Term	238.00	[ICRA]AA- (Stable)	12-Sep-23	[ICRA]AA- (Stable)	16-Mar-23	[ICRA]AA- (Stable)	30-Sep-21	[ICRA]A+ (Stable)
						29-Sep-22	[ICRA]A+ (Stable)		
Non-Fund based	Long Term/ Short Term	229.00	[ICRA]AA- (Stable)/ [ICRA]A1+	12-Sep-23	[ICRA]AA- (Stable)/ [ICRA]A1+	16-Mar-23	[ICRA]AA- (Stable)/ [ICRA]A1+	30-Sep-21	[ICRA]A+ (Stable)/ [ICRA]A1+
						29-Sep-22	[ICRA]A+ (Stable)/ [ICRA]A1+		
Commercial paper	Short Term	50.00	[ICRA]A1+	12-Sep-23	[ICRA]A1+	16-Mar-23	[ICRA]A1+	30-Sep-21	[ICRA]A1+
						29-Sep-22	[ICRA]A1+		

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan*	NA	NA	NA	397.50	[ICRA]AA- (Stable)
NA	Fund based facilities	NA	NA	NA	275.00	[ICRA]AA- (Stable)
NA	Non-Fund based facilities	NA	NA	NA	238.00	[ICRA]AA- (Stable)
NA	Non-Fund based facilities	NA	NA	NA	229.00	[ICRA]AA- (Stable)/ [ICRA]A1+
Yet to be placed	Commercial Paper	NA	NA	NA	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 II: 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
SVKR Software Solutions Private Limited	100%	Full consolidation
Patel Auto Engineering (India) Private Limited	100%	Full Consolidation

***Source:** Company*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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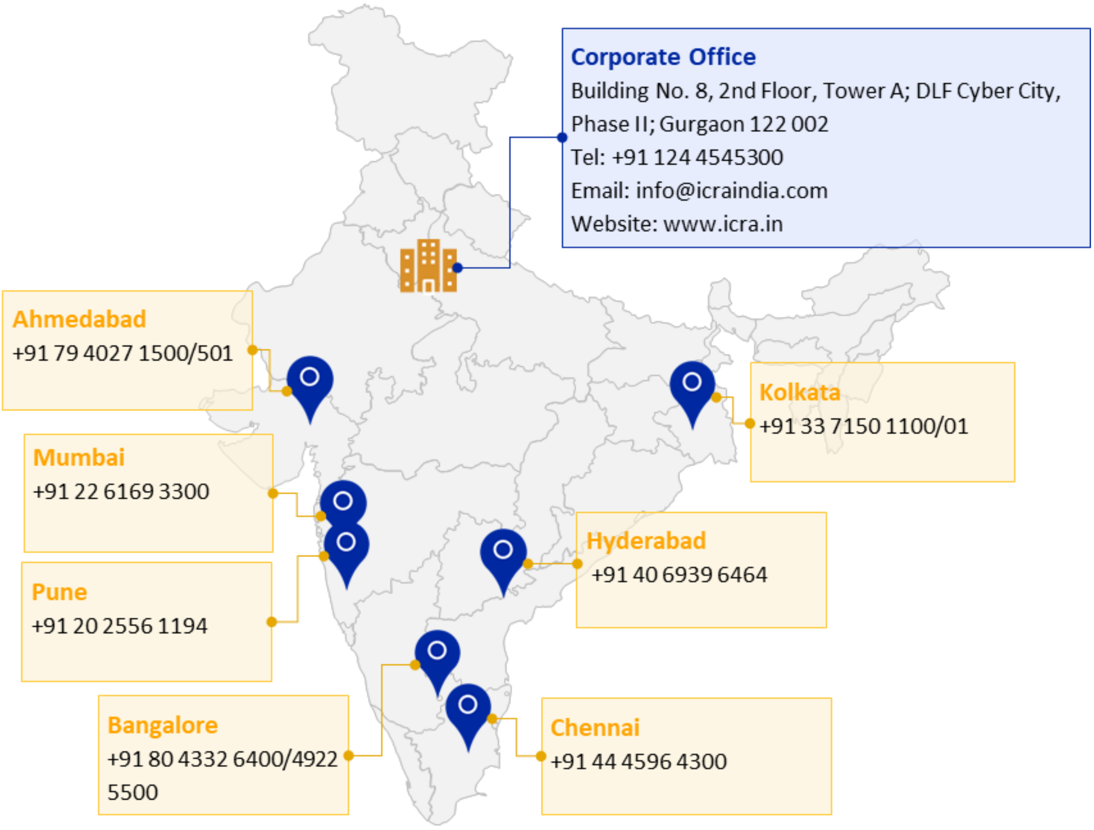

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