October 07, 2024

Sify Infinit Spaces Limited: Ratings reaffirmed for bank facilities; rating assigned for NCD programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based term loans	2,522.84	2,235.53	[ICRA]AA- (Stable); reaffirmed
Long Term - Fund based limits	127.00	150.00	[ICRA]AA- (Stable); reaffirmed
Long Term - Non Fund based limits	75.00	175.00	[ICRA]AA- (Stable); reaffirmed
Long Term/Short Term - Non-Fund based limits	15.00	15.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
NCD	-	250.00	[ICRA]AA- (Stable); assigned
Total	**2,739.84**	**2,825.53**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the debt instruments of Sify Infinite Spaces Limited (SISL) considers ICRA's expectation of an improvement in the company's financial profile in the near-to-medium term on the back of favourable demand prospects for data center (DC) and planned capacity additions. Its long-term association with customers and service agreements entered entails visibility to revenues and cash flows over the medium-to-long term. Factors like infrastructure status for DC business, fiscal incentives for establishing DCs the Government's thrust on digitalisation, creation of smart cities, Digital India schemes, and cloud-related services etc. augur well for DC demand over the medium-to-long term. The ratings remain supported by 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 retention in the 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. In FY2024, SISL's revenue growth moderated to ~9% (35% in FY2023), impacted by slower than estimated timeline for operationalisation of incremental capacities. However, the revenues improved by ~21% (on an annualised basis) in Q1 FY2025 on the back of addition of incremental capacities. The company is expected to record a strong double-digit growth in FY2025 on the back of expected capacity addition of 25-30 MW. The OPBDITA margins improved to 41.5% in FY2024 (from 40.4% in FY2023) while the margins remained flat at 41.2% in Q1 FY2025. The margins are supported by the fixed-price nature of contract and pass-through of power costs to the customers, and are expected to improve, going forward, on the back of benefits of scale.

The ratings are, however, constrained by the capital-intensive nature of business, lower return on capital employed (RoCE), vulnerability of earnings to the competition in the industry and regulatory risks. With a favourable demand outlook, SISL has scaled up its investments and has a sizeable capex plan of Rs. 2,500– 3,000 crore to be spent in the next three years. ICRA notes that the company has tied up its funds through a mix of term loans and Compulsorily Convertible Debentures (CCD) from Kotak Special Situations Fund (KSSF) and Kotak Data Center Fund (KDCF). These apart, Sify Technologies Limited (STL/the parent entity) raised Rs. 250.0 crore through rights issue in Q1 FY2025 and SISL has issued NCDs amounting to RS. 250.0 crore to refinance some of its existing term loans with a 15-year tenure (including a 5-year moratorium). This coupled with the expected improvement in earnings is likely to support its debt protection metrics. Given the high capital investments, SISL's DSCR moderated to less than 1.5 times in FY2024 (in breach of negative trigger). However, with the expected ramp-up of DC capacities with consequent improvement in scale and margins, SISL's earnings, cash flows and debt related metrics are likely to improve over the next 12-24 months.

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, a 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, apart from capabilities in managed services too. SISL has an early-mover advantage in the segment and has an established relationship with its renowned customer base. SISL currently operates 12 concurrently maintainable tier-III DCs with ~100 MW capacity (utility), of which seven are in Mumbai, one each at Noida, Chennai, Bengaluru, Kolkata, and Hyderabad.

Most of these investments are backed by long-term contracts with marquee clients, which in turn have large investment 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 drawn from the fact that the major portion of the capacity expansion being undertaken has already been tied up by customers, which gives healthy revenue visibility.

Favourable demand prospects for data centers – The industry is witnessing a steep increase in demand against relatively lower supply, on the back of the Government's thrust on digital India, 5G rollout, adoption of new technologies, growing userbase for social media, gaming, e-commerce, increased use of cloud adoption and OTT platforms, which 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, and fiscal incentives from Central and state Governments, which 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. 2,500-3,000 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) and Kotak Data Center Fund (KDCF) for a funding up to Rs. 1,000 crore and Rs. 600 crore, respectively through Compulsory Convertible Debentures (CCDs) for capacity expansion of its data centre business. The KSSF has infused Rs. 400 crore and Rs. 600 crore has been infused by KDCF till March 31, 2024. This apart, it has also received Rs. 200 crore in the form of CCDs infused by STL over the last three years ending in FY2024. While the margin profile would improve once the new capacities stabilise, the RoCE levels are expected to remain moderate. Nevertheless, the Group enjoys strong financial flexibility and commitment from promoters (thus insulating from project completion and ramp-up risks). DSCR moderated to less than 1.5 times in FY2024. However, with the expected refinancing of loans through longer tenure debt and improvement in earnings, coverage metrics are expected to improve over the next 12-

24 months. The company's working capital intensity is moderated given the inherently long receivable cycles as it derives major revenues from hyperscalers and PSU clients where the payment terms are relatively longer. However, in the recent past, the receivables have improved, supported by better collections. SISL's ability to further improve the working capital cycle remains a key monitorable.

Competition and contract renewal related 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 the medium-to-long term. While long track record of operations, higher customer retention, along with the long strategic relationship with its customers provide competitive advantage in existing business, elevated competition could exert pressure on the operating margins of the incremental business. ICRA expects a capex of Rs. 1.6 lakh crore in the next six years from major players, with a capacity addition of 5,100 MW-5,200 MW.

Liquidity position: Adequate

SISL's liquidity position is adequate with cash accruals of Rs. 285.0 crore in FY2024 and has strong operating cash flows. The company had moderate undrawn lines of Rs. 127.0 crore as on June 30, 2024. Going forward, it has a repayment obligation of Rs. 200-250 crore, each year, in the next three years. However, the proposed tie-up of longer tenure debt is expected to ease the repayment obligation moderately. SISL had cash balance of Rs. 85.4 crore as on June 30, 2024. 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. Accordingly, the liquidity position is expected to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade SISL's ratings with enhanced utilisation of DC capacities, leading to sharp and sustained improvement in earnings, cash flow position and debt protection metrics.

Negative factors – 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 ratings downgrade include DSCR of less than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty – (Lease Rental Discounting)
Parent/Group support	ICRA has factored in the implicit parent support of Sify Technologies Limited, on the back of the parent's willingness and track record of support extended to SISL. Strategic importance of DC business to the parent and operational linkages between the companies also provide comfort
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

SISL is a wholly owned subsidiary of Sify Technologies Limited and was earlier a part of STL. SISL operates 12 concurrently maintainable tier-III DCs with ~110 MW capacity (utility), of which seven are in Mumbai, one each in Noida, Chennai, Bengaluru, Kolkata and Hyderabad.

About the parent

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 NASDAQ and the remaining stakes are held in the form of American Depository Shares. Operating largely in the domestic market, Sify's revenues originate from telecommunication, data centre, cloud and managed services, application integration, and technical integration services segments. Sify has also seven wholly owned subsidiaries, namely Sify Technologies (Singapore) Pte Limited, Sify Technologies North America Corporation, Sify Infinit Spaces Limited, Sify Digital Services Limited, SVKR Software Solutions Private Limited, Sify Data and Managed Services Limited and Patel Auto Engineering (India) Private Limited.

Key financial indicators (audited)

Standalone - SISL	FY2023	FY2024
Operating income	1,021.3	1,114.2
PAT	83.5	57.0
OPBDITA/OI	40.4%	41.5%
PAT/OI	8.2%	5.1%
Total outside liabilities/Tangible net worth (times)	1.8	1.1
Total debt/OPBDITA (times)	4.1	4.1
Interest coverage (times)	3.8	3.0

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)	Oct 07, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	2,235.53	[ICRA]AA- (Stable)	Sep 12, 2023	[ICRA]AA- (Stable)	Mar 16, 2023 Sep 29, 2022	[ICRA]AA- (Stable) [ICRA]A+ (Stable)	Oct 04, 2021	[ICRA]A+ (Stable)
Fund based	Long Term	150.00	[ICRA]AA- (Stable)	Sep 12, 2023	[ICRA]AA- (Stable)	Mar 16, 2023 Sep 29, 2022	[ICRA]AA- (Stable) [ICRA]A+ (Stable)	Oct 04, 2021	[ICRA]A+ (Stable)
Non-Fund based	Long Term	175.00	[ICRA]AA- (Stable)	Sep 12, 2023	[ICRA]AA- (Stable)	Mar 16, 2023 Sep 29, 2022	[ICRA]AA- (Stable) [ICRA]A+ (Stable)	Oct 04, 2021	[ICRA]A+ (Stable)
Non-Fund based	Long Term/ Short Term	15.00	[ICRA]AA- (Stable) / [ICRA]A1+	Sep 12, 2023	[ICRA]AA- (Stable) / [ICRA]A1+	Mar 16, 2023 Sep 29, 2022	[ICRA]AA- (Stable) / [ICRA]A1+ [ICRA]A+ (Stable) / [ICRA]A1+	Oct 04, 2021	[ICRA]A+ (Stable)/ [ICRA]A1+
NCD	Long Term	250.00	[ICRA]AA- (Stable)	-	-	-	-	-	-

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
NCD	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	2,235.53	[ICRA]AA-(Stable)
NA	**Fund based facilities**	NA	NA	NA	150.00	[ICRA]AA-(Stable)
NA	**Non-Fund based facilities**	NA	NA	NA	175.00	[ICRA]AA-(Stable)
NA	**Non-Fund based facilities**	NA	NA	NA	15.00	[ICRA]AA-(Stable)/ [ICRA]A1+
Proposed to be listed	**NCD**	NA	NA	NA	250.00	[ICRA]AA-(Stable)

*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 – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 6939 6416
nithya.Debbadi@icraindia.com

Nikhil Parakh
+91 44 4596 4321
nikhil.parakh@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches