March 16, 2023(Revised)

Sify Technologies Limited: Long-term Rating upgraded, Short term rating reaffirmed, ratings 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	96.00	200.00	[ICRA]AA-(Stable); Upgraded from [ICRA]A+ (Stable) and assigned for enhanced limits
Long Term: Fund based limits	247.00	285.00	[ICRA]AA-(Stable); Upgraded from [ICRA]A+ (Stable) and assigned for enhanced limits
Long Term: Non-Fund based limits	220.00	253.00	[ICRA]AA-(Stable); Upgraded from [ICRA]A+ (Stable) and assigned for enhanced limits
Long Term/Short Term: Non-Fund based limits	114.00	114.00	[ICRA]AA-(Stable)/[ICRA]A1+; Upgraded from [ICRA]A+ (Stable), Short term rating reaffirmed.
CP programme	50.00	50.00	[ICRA]A1+; reaffirmed
Total	**727.00**	**902.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action on the bank lines of Sify Technologies Limited (STL) factors in the favourable demand prospects for its telecom and data center (DC) businesses, growing scale of operations, healthy revenue visibility on the back of long-term agreements with reputed clients in DC business and strong operational track record. This is supported by the strong technical competencies of the company enabling it to cater to diverse client segments. 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.

STL's financial profile is characterised by improving scale of operations, stable earnings, and moderate debt protection metrics. During 9M FY2023, STL's consolidated revenues grew by ~16.7% YoY supported primarily by strong growth in DC business (up 34% YoY) and digital services business (up 23.9% YoY). The consolidated operating margins, however moderated to 19.1% from 22.3% on the back of increase in employee costs in digital services business and increase in operational costs pertaining to investment in network fiber expansion and upgradation in select metro cities. DC's share in the consolidated revenues (32% in 9M FY2023) has significantly increased in the last four years with steady addition of capacities and new customer sign-ups.

The ratings however remain constrained by the capital-intensive nature of business, and lower return on capital employed (RoCE) levels, moderate working capital intensity on the back of long receivable cycle, vulnerability of its earnings to the competition in industry and regulatory related risks. Inherent to its nature of business, capital costs in networking segment remain dependent on the need for maintenance of network links; while in DC business, the group has scaled up its investments in recent period given a strong demand outlook. 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. SISL has tied up its funds through mix of term loans and Compulsorily Convertible Debentures (CCD) from Kotak Special Situations Fund (KSSF). The consolidated leverage is expected to be moderate in the near-to-medium term on the back of high debt funded capex in the DC business.

The Stable outlook on the [ICRA]AA- 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

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 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 – STL is an established converged ICT solutions player in the country, offering networking, affiliated managed services, data center and other related solutions. It 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 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 11 concurrently managed data centers and digital services which gives the company a 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 like infrastructure status for DCs and schemes like Digital India.

Strong operational profile – STL derives revenues from three broad segments, namely enterprise network segment (38% of the consolidated revenues in 9M FY2023), DC (32%) and Digital services (30%). 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 have been triggered by increasing cloud adoption, increased demand for bandwidth and links in 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.

Favourable demand prospects – The increasing penetration of DCs which requires networks for data transfer is expected to boost STL's revenues in telecom segment going forward. It already caters to 53 data centers in the country including 11 captive data centers of Sify. In DC business, demand remains supported by Government's thrust on digitisation including creation of smart cities, schemes like Digital India, providing infrastructure status for DCs, and extending fiscal incentives for establishing DCs and cloud-related services. This apart STL enjoys an early-mover advantage in the segment and has an established relationship with a renowned customer base. Amidst growing demand, STL'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.

Credit challenges

Highly capital-intensive nature of business- With higher thrust on digitalisation and cloud-related services and the increasing demand for DC business and need for maintenance of connectivity links, business profile remains characterised by need for periodical investments. STL incurred a capex of Rs. 150.0 crore in the telecom business funded through term loans in FY2023 towards expansion of networks and capex upgradation. The capex going forward in the telecom business is expected to sustain in the light of 5G roll out. The overall capex spend in the DC business is estimated at ~Rs.2,100 crore during FY2023-25. Apart from the tie-ups with banks for term loans, it has also tied up with Kotak Special Situations Fund (KSSF) for a funding of Rs. 1,000 crore through CCDs for capacity expansion and working capital purposes for its DC business. KSSF has already infused Rs. 400 crore as on December 31, 2022. KSSF has the option and right to subscribe to additional CCDs to the tune of Rs. 600

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 its promoters thus insulating from project completion and ramp up risks.

High working capital intensity– 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 recent past, 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.

Environment and Social Risks

Environment

Energy efficiency and sustainable sourcing of power is critical for data centers, which impacts the smooth conduct of business operations. The capability to source sustainable power at the same time being cost competitive would be critical going forward. STL in its recently deployed data centers has adopted advanced technologies and executing energy efficient strategies. STL 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 authorized vendors for buy back of components like batteries etc. Overall, STL has taken adequate measures to meet all the government regulations and sustainable sourcing of power to minimize any business disruptions.

Social

Inherent to its nature of business, STL faces two key risks from a social standpoint –risk of data breaches and cyber-attack affecting the large volumes of customer data that such entities manage. Notwithstanding the above, any material lapses on this front can result in substantive liabilities, fines or penalties and reputational impact. STL has been offering networking and data center services for close to two decades and has not reported any material breach in data which has impacted its reputations.

Liquidity position: Adequate

STL liquidity position is **Adequate** with consolidated cash accruals of Rs. 329.9 crore in the 9M FY2023 period. Sify's working capital utilisation is supported by moderate undrawn lines to the tune of ~Rs. 90.0 crore (against sanctioned limits) as on December 31, 2022. Going forward, the company has repayment obligations of ~Rs. 260.3 crore in the next one year (including lease obligations) and shall increase as Sify ties up funds for funding its proposed capex plans. STL's cash balance was Rs. 303.9 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 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 utilization and ramp up of telecom operation) and material improvement in consolidated earnings, cashflow position and debt protection metrics.

Negative Factor: Negative pressure on STL's ratings could arise from a material deterioration in consolidated earnings and credit metrics, and / or sharp weakening of liquidity profile. Specific metrics that could lead to a rating downgrade include Net Debt/OPBDITA >3.0x 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 Infinit 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 (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/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;

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 Dec 31, 2022 (Rs. crore)	Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		
					16-Mar-23	29-Sep-22	30-Sep-21	14-Sep-20	15-Jul-20	18-Oct-19	30-Aug-19	27-Jun-19
1	Term Loan	Long Term	200.00	137.51	[ICRA]AA- (Stable)	[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	285.00	-	[ICRA]AA- (Stable)	[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	253.00	-	[ICRA]AA- (Stable)	[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]AA- (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+	[ICRA]A+ (Stable)/ [ICRA]A1+
5	Non-Fund based	Short Term	-	-	-	-		[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+	-	-	-	[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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan*				200.00	[ICRA]AA- (Stable)
NA	Fund based facilities				285.00	[ICRA]AA- (Stable)
NA	Non-Fund based facilities				253.00	[ICRA]AA- (Stable)
NA	Non-Fund based facilities				114.00	[ICRA]AA- (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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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.

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