October 07, 2024

Sify Digital Services Limited: Ratings downgraded to [ICRA]A(Stable)/[ICRA]A1, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based limits	131.00	174.00	[ICRA]A(Stable); downgraded from [ICRA]A+ (Stable) and assigned for enhanced amount
Long Term - Non-Fund based limits	195.00	195.00	[ICRA]A(Stable); downgraded from [ICRA]A+ (Stable)
Long Term/Short Term - Non-Fund based limits	129.00	119.00	[ICRA]A(Stable)/ [ICRA]A1; downgraded from [ICRA]A+(Stable)/[ICRA]A1+
Total	**455.00**	**488.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings action on the bank lines of Sify Digital Services Limited (SDSL) considers the longer-than-expected recovery in SDSL's earnings. Inherent to its business model, upfront investments in manpower and skilled talent are high to support the order pipeline and the same are likely to be absorbed with scale-up of operations. Despite the healthy order pipeline, the company's revenues remained flat at Rs. 977.4 crore in FY2024, while the build-up of manpower costs to cater to the order pipeline resulted in operating losses. SDSL's ability to ramp up its project execution, thus supporting better absorption of costs, remains to be seen.

The ratings continue to remain supported by the long 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. The ratings also consider SDSL's strong operational profile, marked by a diversified product mix, reputed customer base, and relatively lower customer concentration risks. SDSL benefits from its parent being an integrated ICT player offering networking, affiliated managed services, data center and other related solutions. Factors like increased digitisation, data consumption, benefits arising from 5G rollouts and various Government measures like Digital India would drive cloud adoption and similar opportunities for SDSL. While SDSL's financial profile is constrained by losses and high working capital intensity, the company enjoys need-based funding support from STL.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company will continue to benefit from its strong parentage and expected ramp-up in order executions.

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. Sify's senior management team also consists of professionals having extensive experience in the technology domain.

Strong parentage and support from parent – SDSL derives comfort from the operational and financial linkages with the parent, STL, an established converged ICT solutions player in the country, offering networking, affiliated managed services, data centre and other related solutions. STL has a wide network, covering more than 1,600 towns and cities, which have more than 1,25,000 links and 3,700 plus points of presence, making Sify one of the largest Multiprotocol Label Switching (MPLS) network service providers, supporting businesses with last mile connectivity on both wireless and wired lines. SDSL leverages on common customer base shared with STL, which augurs well for the company's growth. STL is expected to support SDSL through timely infusion of funds, if required.

Favourable demand prospects – SDSL's diverse product offerings like cloud data center, managed services, cloud management platform, and cloud storage services are expected to benefit from the Government's thrust on digitalisation including creation of smart cities and schemes like Digital India. Increasing demand for digital services has also been driven by the gradual shift in the industry towards subscription-based models from licensing models and increasing penetration of Point of Sale/Unified Payments Interface (UPI) amid favourable regulatory measures. As storage of data is increasingly going digital, the demand for digital services is only set to increase.

Credit challenges

Average financial profile – The revenues from the digital business have remained flat (-0.1%) in FY2024, while the build of manpower to cater to the order pipeline resulted in operating losses in FY2024, which expanded further in Q1 FY2025. Going forward, the revenues and margins are expected to improve given the company's healthy order pipeline and the company's conscious efforts to reduce exposure on projects having stretched receivable cycle and lower margins. The coverage indicators marked by TD/OPBDITA and DSCR are affected by losses, although funding support from the parent STL (Rs. 15.0 crore received in H1 FY2025 and Rs. 35.0 crore expected H2), lends comfort to its financial profile.

High working capital intensity – SDSL derives a part of its businesses from the Government and PSU clients where the payment terms are relatively longer, which resulted in an elongated receivables position. Though a part of the same is offset by relatively favourable credit terms with suppliers, the working capital cycle remains high. In the recent past, the receivables have declined, supported by better collections of large contract receivables from the Government and PSUs, and choosing projects selectively. Ability to improve working capital cycle remains a key monitorable.

Exposed to intense competition – SDSL faces intense competition from large established hyperscalers in cloud offerings, which limits its pricing flexibility and puts pressure on its margins. However, comfort is taken from the established clientele of the parent and the Group, considering the integrated nature of service offerings.

Liquidity position: Adequate

SDSL's liquidity position is adequate with cash balances of Rs. 16.3 crore and undrawn lines worth Rs. 62.0 crore as on June 30, 2024. The company has repayment obligation (on leases) of Rs. 47.0 crore in FY2025, which is expected to be met from its cash flows. Any need-based support from the parent is also expected. Funding support from the parent, STL (Rs. 15.0 crore received in H1 FY2025 and Rs. 35 crore expected in H2), lends comfort to its financial profile.

Rating sensitivities

Positive factors – A significant and sustained improvement in SDSL's earnings and cash flows could lead to positive ratings action. An improvement in the credit profile of the parent entity can also lead to ratings upgrade.

Negative factors – Pressure on SDSL's ratings could emerge if recovery in margins takes longer than expected, impacting its credit profile. Any weakening of linkages / support from the parent entity or weakening of the parent's credit profile could lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology IT - Software & Services
Parent/Group support	ICRA has factored in the implicit parent support of Sify Technologies Limited, on the back of strong operational and financial linkages between the companies.

Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Sify Digital Services Limited is a wholly owned subsidiary of Sify Technologies Limited (STL) and provides application integration services, technology integration service and cloud and managed services.

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 – SDSL	FY2023	FY2024
Operating income	978.5	977.4
PAT	-37.4	-67.2
OPBDITA/OI	0.8%	-2.4%
PAT/OI	-3.8%	-6.9%
Total outside liabilities/Tangible net worth (times)	3.4	5.1
Total debt/OPBDITA (times)	30.3	-9.4
Interest coverage (times)	0.4	-0.9

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

<table>
<tr><th rowspan="3">Instrument</th><th colspan="3">Current Rating (FY2025)</th><th colspan="6">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Oct 07, 2024</th><th colspan="2">FY2024</th><th colspan="2">FY2023</th><th colspan="2">FY2022</th></tr>
<tr><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td rowspan="2">Fund based</td><td rowspan="2">Long Term</td><td rowspan="2">174.00</td><td rowspan="2">[ICRA]A (Stable)</td><td rowspan="2">Sep 12, 2023</td><td rowspan="2">[ICRA]A+ (Stable)</td><td>Mar 16, 2023</td><td>[ICRA]A+ (Stable)</td><td rowspan="2">Oct 04, 2021</td><td rowspan="2">[ICRA]A+ (Stable)</td></tr>
<tr><td>Sep 29, 2022</td><td>[ICRA]A+ (Stable)</td></tr>
<tr><td rowspan="2">Non-Fund based</td><td rowspan="2">Long Term</td><td rowspan="2">195.00</td><td rowspan="2">[ICRA]A (Stable)</td><td rowspan="2">Sep 12, 2023</td><td rowspan="2">[ICRA]A+ (Stable)</td><td>Mar 16, 2023</td><td>[ICRA]A+ (Stable)</td><td rowspan="2">Oct 04, 2021</td><td rowspan="2">[ICRA]A+ (Stable)</td></tr>
<tr><td>Sep 29, 2022</td><td>[ICRA]A+ (Stable)</td></tr>
<tr><td rowspan="2">Non-Fund based</td><td rowspan="2">Long Term/ Short Term</td><td rowspan="2">119.00</td><td rowspan="2">[ICRA]A (Stable)/ [ICRA]A1</td><td rowspan="2">Sep 12, 2023</td><td rowspan="2">[ICRA]A+ (Stable)/ [ICRA]A1+</td><td>Mar 16, 2023</td><td>[ICRA]A+ (Stable)/ [ICRA]A1+</td><td rowspan="2">Oct 04, 2021</td><td rowspan="2">[ICRA]A+ (Stable / [ICRA]A1+</td></tr>
<tr><td>Sep 29, 2022</td><td>[ICRA]A+ (Stable)/ [ICRA]A1+</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
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 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	Fund based facilities	NA	NA	NA	174.00	[ICRA]A (Stable)
NA	Non-Fund based facilities	NA	NA	NA	195.00	[ICRA]A (Stable)
NA	Non-Fund based facilities	NA	NA	NA	119.00	[ICRA]A (Stable)/ [ICRA]A1

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

For more information, visit www.icra.in

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