Sify Infinit Spaces Limited

September 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	2,635.04	CARE AA-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	190.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Non Convertible Debentures	250.00	CARE AA-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities and Non-Convertible debentures of Sify Infinit Spaces Limited (SISL) factors in the strong revenue visibility and assured cashflow backed by long-term/medium term contracts with marquee clients and robust industry growth prospects which is expected to boost SISL's revenue significantly. SISL is one the leading players in the data center (DC) industry and CARE Ratings Limited (CARE Ratings) expect the margins to remain strong (around 45%) with continued strong market position and expanded capacities getting operationalized.

The revenue profile of SISL is backed by long-term/medium contracts and due to the downtime risks associated with switching result in high customer stickiness in the data center business, providing long-term revenue visibility. The data center business registered a compounded annual growth rate (CAGR) of around 26% over the last three years (from ₹563 crore in FY21 to ₹1114 crore in FY24). While the revenue growth moderated at around 9% in FY24, it rebounded to 24% during Q1FY25 with additional capacity of Rabale Tower V getting operationalized which got delayed and impacted FY24 revenue growth. Aided by the higher demand over supply, the growth momentum is expected to continue in the long term with revenue likely to grow two-fold over the next three years (FY25-FY27).

SISL, to cater to the increasing demand, has undertaken sizeable capacity addition capex (~Rs.3,000 crore in next three years) in the DC business. The debt coverage metrics are also expected to remain comfortable with Net debt/EBITDA under 3.00x, despite debt-funded capacity expansion plans. The net debt/EBITDA stood at ~2.91 in Q1FY25.

SISL has raised Compulsory Convertible Debentures to the tune of Rs.1,000 crore from Kotak Special Situations Fund and Kotak Data Center Fund which has strengthened capital structure. Also, the parent company; STL (rated 'CARE AA-; Stable / CARE A1+) has infused about Rs.200 crore of CCDs in the SISL over last three years ending FY24.

The ratings continue to derive strength from the established parentage and experience of promoters in connectivity business and low counter party credit risk. The rating strengths are, however, tempered by capital intensive nature of the Data Centre business with substantial capacity expansion plans undertaken and increasing industry competition with entry of players having relatively higher financial flexibility. With large sized debt funded capex undertaken, contractual agreements for the new capacities in a timely manner and at competitive rates would be important for its growth driver.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Successful ramping-up and utilisation of newly added capacities resulting in revenue augmentation and improvement in debt coverage metrics.

Negative factors

- Higher than expected debt-funded capex and lower revenue generation impacting the debt coverage metrics and net debt to EBITDA increasing to 3.00x on continued basis.
- Extension in receivable beyond 180 days, on continued basis, impacting the liquidity profile

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Analytical approach: Standalone

Outlook: Stable

SISL is expected to sustain its strong financial risk profile with favorable demand scenario, reputed client profile, long term contracts and strong margins.

Detailed description of the key rating drivers:

Key strengths

Established track record of operations and market position

Sify group is one of the leading players in the data center and networking business in India. The company has transitioned from plain vanilla service offering to customized data center solution operator. Sify Technologies Limited (STL), the parent company of SISL is the first company to setup the commercial data center in India in the year 2000. Over the last 24 years, the group has increased its data center footprint in the country. Apart from Data centers, the Sify group offers connectivity services, cloud management services which offers SISL edge over other operators. The established track record has aided in securing business from broad customer base across business segments ranging from BFSI, telecom, manufacturing, PSUs, etc.

Annuity akin business providing high revenue visibility

SISL has a stable annuity stream of inflows wherein the customers enter medium to long-term service contracts with defined rates to utilize its data centers and related IT infrastructure services. The economic costs involved in the transfer and the data security issues, replacing the existing service provider with another party prevent any migration and impart high customer stickiness. This makes the business model akin to an annuity structure wherein revenue is assured every year. The DC business revenue (erstwhile operated as a division of STL upto FY22) has increased from ₹563 crore in FY21 to ₹1114 crore in FY24 and is expected to double by FY27. While the revenue growth moderated to 9% in FY24 (on a y-o-y basis), it picked up during Q1FY25 with revenue registering a y-o-y growth of 24%, however the same is expected to grow by double digit going forward. The slower growth during FY24 is mainly due to complete absorption of existing capacities and delayed commissioning of new DC at Rabale Tower. Operating margins moderated in FY24 and Q1FY25; though continuing to remain comfortable above ~40%. The contracts for the hyperscalers are structured to provide power pass through which is the key cost constituent (around 75%). Therefore, the margins are expected to remain stable going forward.

Favourable Industry outlook

The data center industry is receiving an influx of demand from global technology solution providers on the back of increasing digitalization. India contributes 20% of global data despite having a data centre capacity of only 3% globally. The data center capacity (MW) per million users is relatively lower for India compared to its peers. Further the demand is expected to be driven by rapid digitization viz e-commerce, internet payments, online streaming and gaming services and adoption of new technologies such as 5G, IOT and Artificial Intelligence. Data Centre capacity is expected to double in the next three years from existing 0.9 GW in 2023 to 1.9GW by 2026 thereby requiring large capex plans.

Comfortable financial position

SISL has received fund infusion of Rs.600 crore from Kotak Data Center Fund (KDCF) and Rs.400 crore from Kotak Special Situation Fund (KSSF) and with another Rs.600 crore available for drawdown from KSSF. The parent; STL has also infused Rs.200 crore during FY22-FY23. The funding has supported the capital structure amidst increasing debt for the capex undertaken. The capacity augmentation plans are being funded at a debt:equity of 3:1 resulting in increased debt level on a y-o-y basis. Nevertheless, the rising debt level has been corroborated by increased EBITDA thereby enabling the company to maintain comfortable Net debt/EBITDA of below 3.0x which momentarily increased in FY24. The ability to maintain the same going forward is a key sensitivity.

Liquidity: Strong

The liquidity profile remains comfortable marked by strong cash accrual generation vis-à-vis debt repayment obligation. As against the debt repayment of ~Rs.295 for FY24 the company is expected to generate cash accruals of above ₹300 crore. Liquidity is also supported by moderately utilized working capital limits (~75%) and comfortable collection days (84 in FY24).

Key weaknesses

Capital intensive nature of operations and large capex plans undertaken

The data center business is characterized by high capital costs and longer gestation periods. Given the immense potential for growth in the data center businesses and existing capacities at an optimal level, SISL has been incurring capex to cater the demand. The company has planned to incur the total capex of about ₹3,000 crore over next three years from FY25 to FY27 which is predominantly debt funded. With SISL availing debt for planned capex the overall gearing is expected to moderate. Further, the debt availed for the capex completed largely commencing from FY26 onwards. Hence, SISL's ability to ramp-up the utilization of newly added capacities and enter into agreements with clients with strong credentials and at competitive prices remains critical.

Intense competition in the industry

With Data centers offering strong profitability margins new players with deeper pockets have entered the Data center market in India. SISL faces high competition from other established domestic players. Though SISL has an advantage in terms of proven track record of operations, the ability to maintain the pricing for the planned capacity remains crucial going forward.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Short Term Instruments
Service Sector Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Other Telecom Services

Sify Infinit Spaces Limited is a wholly-owned subsidiary of Sify Technologies Limited and provides data center co-location services. At present the company operates 11 data centers across 6 locations i.e. Mumbai, Chennai, Hyderabad, Bangalore, Delhi and Kolkata. The data center business was earlier a division of the parent entity, till FY20 and was subsequently carved out as a wholly owned-subsidiary.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,025	1,114	338
PBILDT	417	459	139
PAT	83	57	22
Overall gearing times)	0.96	0.84	0.86
Interest coverage (times)	3.84	2.98	3.03

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable
Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non Convertible Debentures*		-	-	-	250.00	CARE AA-; Stable
Fund-based - LT-Cash Credit		-	-	-	150.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	June 2031	2485.04	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	180.00	CARE AA-; Stable / CARE A1+
Non-fund-based - LT/ ST-BG/LC		-	-	-	10.00	CARE AA-; Stable / CARE A1+

*Proposed with maturity of 15 years

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	2485.04	CARE AA-; Stable	1)CARE AA-; Stable (05-Apr-24)	-	1)CARE AA-; Stable (07-Feb-23) 2)CARE A+; Stable (02-May-22)	-
2	Fund-based - LT-Cash Credit	LT	150.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Apr-24)	-	1)CARE AA-; Stable (07-Feb-23) 2)CARE A+; Stable	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
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							(02-May-22)	
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	180.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (05-Apr-24)	-	1)CARE AA-; Stable / CARE A1+ (07-Feb-23) 2)CARE A+; Stable / CARE A1+ (02-May-22)	-
4	Non-fund-based - LT/ ST-BG/LC	LT/ST	10.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (05-Apr-24)	-	1)CARE AA-; Stable / CARE A1+ (07-Feb-23) 2)CARE A+; Stable / CARE A1+ (02-May-22)	-
5	Debentures-Non Convertible Debentures	LT	250.00	CARE AA-; Stable				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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