Sidoti & Company, LLC
Equity Research

Sify Technologies Limited Sponsored ADR (SIFY)

Initiate Coverage Of Sify Technologies With A $3 Price Target

	F2017	F2018E	F2019E	F2020E
June	$0.01	$0.02A	$0.02	$0.02
Sep.	0.01	0.02A	0.02	0.03
Dec.	0.01	0.01	0.02	0.03
Mar.	0.02	0.02	0.03	0.03
EPS (FY)	**$0.05**	**$0.07**	**$0.09**	**$0.11**
EPS (Cal.)	$0.06E	$0.08	$0.11	
P/E (FY)		**24.3x**	18.9x	**15.5x**
P/E (Cal.)	28.3x	21.3x	15.5x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. F2017-F2020E EPS estimates assume a fully diluted share count of 178 million shares. Sum of quarterly data may not equal full-year total due to rounding and/or changes in share count. NC = Not covered by Sidoti & Company, LLC.

Year	F2011	F2012	F2013	F2014	F2015	F2016	F2017	F2018E	F2019E	F2020E
Rev.(Mil.)	$154.2	$150.5	$157.6	$174.1	$205.5	$226.6	$275.0	$304.1	$334.5	$363.1
GAAP EPS*	($0.15)	($0.04)	$0.05	$0.03	$0.03	$0.04	$0.05	$0.07	$0.09	$0.11

***GAAP EPS assume a fully diluted share count of 178 million shares**

Description*:* Sify Technologies Ltd., (www.sifytechnologies.com) is one of the largest integrated Information & Communication Technology (ICT) solutions and services companies in India, offering end-to-end solutions over a common telecom data network infrastructure. Sify's network reaches more than 1,550 cities in India and connects 45 data centers, including six owned Tier 3 data centers. Headquarters are in Chennai, India.

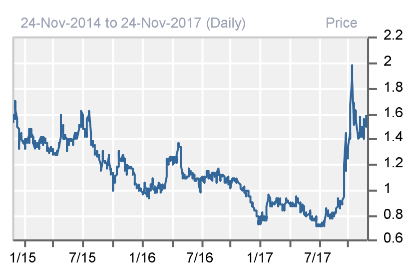
NR

Price Target: $3
Price: $1.70
Risk Rating:H

Gregory Burns
(212) 894-3317
(gburns@sidoti.com)

Key Statistics

Analysts Covering	0
Market Cap (Mil)	$305
Enterprise Value	$355
52-Week Range (NASDAQ)	2-1
5-Year EPS CAGR	25%
Avg. Daily Trading Volume	279,000
Shares Out (Mil)	178.0
Float Shares (Mil)	24.4
Insider Ownership	86%
Institutional Holdings	1%
Annualized Dividend	$0.02
Dividend Yield	1.4%
FCF Per Share (F2020E)	$0.08
FCF Yield (F2020E)	4.7%
Net Cash Per Share (F2019E)	($0.09)
Price to Book Value	2.2x
Return on Equity (F2020E)	12.3%
Total Debt to Capital	29%
Interest Coverage Ratio	1.9x
Short Interest %	N/A
Short Interest Days To Cover	N/A
Russell 2000	1,514
Russell 2000 - Last 12 Months	27.5%
SIFY - Last 12 Months	53.8%



Source: FactSet Prices

Sify's system of services sets it apart from the competition. In F2007, Sify refocused on the business IT and data services markets. Since then, Sify developed a unique set of solutions and services that span the entire eco-system of the Information and Communications Technology (ICT) market. Today, Sify is one of the few ICT vendors in India that can offer customers an end-to-end solution, including everything from infrastructure-led telecom data services to practice-led Cloud and Managed Services. As the formally separate IT and communications markets converge, we think customers will increasingly turn to multifaceted vendors such as Sify.

Until recently, we think investors largely ignored an impressive turnaround. Since Sify's pivot away from the consumer broadband market in F2007, the company posted revenue and EBITDA CAGRs of 21% and 35% on a constant currency basis, respectively, in F2013-F2017. Moreover, the company was profitable every year since F2013 and began paying a modest dividend in F2014 that currently yields 1.4%. Despite this, the stock traded in a narrow range for years, before rallying sharply off the lows, starting in July 2017. Despite this move, we think SIFY remains attractively valued.

Sify is at the center of mega-trends that are transforming the economy of India. India's economy is in the early stages of a massive digital revolution that will drive greater demand for IT and telecommunication services. The transformation is being accelerated by the policy agenda of the Indian government that, through initiatives such as Digital India, seeks to transform India into a completely digital country. Sify will be a primary enabler and beneficiary of this trend as more government and private sector business is conducted online; this will drive increased demand for Sify's Telecom-centric and Data Center-centric services.

Sify is in good financial shape to fund expansion of its telecommunications network and data center footprint. Sify books significant D&A expense, reflective of the substantial ongoing investment in the network infrastructure. As such, the company generates ample cash from operations, the majority of which we project will continue to be consumed by capital expenditures in F2018-F2020. We estimate, after annual capital spending of $30-$33 million, the company will generate free cash flow of $5.2 million ($0.03 per share) in F2018, $12.3 million ($0.07) in F2019 and $13.7 million ($0.08) in F2020. Net debt at the end of

F2017 was $37.6 million ($0.21 per share); this equates to less than 1x trailing-12-month EBITDA which we think gives Sify room to raise additional capital as needed. The average interest rate on the debt is 7.0%. We estimate a total debt ratio of 24% and net debt per share of $0.09 at the close of F2020.

We initiate coverage of Sify Technologies with a $3 price target. The stock rallied to a high of $2 in early October, before pulling back in recent trading activity; we find no clear catalyst for this price performance. We think valuing the stock based on a multiple of EV/EBITDA is appropriate now given that high non-cash D&A expense somewhat "masks" the underlying earnings power of the company, in our view. Trading at just 6.9x our projections on a F2018 EV/EBITDA basis, SIFY is valued at a discount to peers in the Indian Telecom and application and technology integration markets that trade in a range of 9x-13x EV/EBITDA. Although these are larger more profitable companies right now, we think SIFY deserves to trade in line with the peers given that we think the company's revenue and EBITDA growth will exceed that of the peers in the next few years, as well as the potential to improve profitability as Sify gains scale. We, thus, derive the $3 price target by applying a 10x multiple to our F2020 EBITDA forecast of $57.6 million and subtracting current net debt of $37.6 million. This price target also implies about a 25x our F2020 EPS estimate of $0.11, a valuation multiple that is in line with our 5-year EPS CAGR forecast.

Company Overview

Sify Technologies, incorporated in 1995, in its early years focused on the development of a private data network. The company began commercial operations in 1998, delivering private network services to businesses in India. In 1999, to capitalize on the Indian government's opening of the Internet service provider market and its existing private data network, Sify shifted focus to delivering consumer broadband services through CD-ROMs (a la AOL; owned by Verizon [NYSE: VZ, NC]), a network of Internet cafes and broadband to the home through partnerships with cable operators. In 2007, Sify closed the money losing consumer broadband services to focus on building its data network and data center infrastructure to support the delivery of communications and IT services to businesses. In F2007-F2012, Sify invested in infrastructure to be ready when demand for high-density data and storage in India caught up.

By 2012, the market caught up and riding the wave of demand Sify engineered an impressive turnaround, with revenue and EBITDA CAGRs of 21% and 35% on a constant currency basis, respectively, in F2013-F2017. Moreover Sify turned profitable in F2013 and was profitable every year since.

In order to best capitalize on the increasing demand for services in F2013 Sify shifted focus from delivering standalone services to offering integrated telecom and data center-centric services. Today, Sify is one of the largest integrated Information & Communication Technology (ICT) solutions and service companies in India and is one of the few able to provide end-to-end solutions. Sify has five distinct business segments: infrastructure-led Telecom (55% of revenue) and Data Center (10%) services; along with three practice-led businesses, Cloud and Managed Services (5%), Application Integration Services (15%) and Technology Integration Services (15%). We think the ability to deliver a comprehensive range of services over a common telecom data network positions the company for growth as it will benefit from the convergence of the previously distinct Information Technology and Telecom sectors.

Sify is a NASDAQ listed ADR. The company completed an initial public offering of 4.8 million ADRs at $18 per share in October 1999. In October 2010, Sify entered into a subscription agreement under which it issued 125 million shares at 32 Indian Rupees per share ($0.49 USD at the current exchange rate) to an entity beneficially controlled by Mr. Raju Vegesna, the company's Chairman of The Board, Managing Director and CEO. Mr. Vegesna beneficially owns approximately 86% of the outstanding shares. Although all 125 million shares are deemed issued and outstanding and included in the 178 million fully diluted share count only the portion paid for by Mr. Vegesna is eligible for dividend distributions. To date, Mr Vegesna made payments for 77.5% of the shares. Sify's board will determine the timing of future calls on Mr. Vegesna's subscription agreement, based on the company's investment needs.

Sify's Broad Service Array

Telecom-Centric Services

Sify operates the largest Multiprotocol Label Switching (MPLS) network in India that provides businesses with robust last mile connectivity on both wireless and wired lines. Sify's national network is comprised of more than 2,800 points of presence (PoPs), spanning 1,550 cities across 29 states. Sify's domestic data services provide businesses with Internet access and enable geographically distributed businesses to connect through IP/MPLS Virtual Private Networks. Sify's network also connects 45 data centers across India, including six of its own, that enable businesses to access remote data and cloud-based applications. Sify connects more than 100,000 end points for more than 8,500 businesses.

Sify is expanding its data network internationally with 7 PoPs in the U.S., Europe and the Middle East, enabling it to serve both India companies looking to expand internationally and international firms that want to enter India. Sify also offers wholesale voice termination services through a cable landing station that facilitates three international cables servicing the Middle East and Europe. Sify derives about 27% of revenue outside India.

Approximately two thirds of Telecom revenue is derived from data-centric solutions and services. While we expect the cost of data to decline, Sify built a stack of managed services for network customers, including Managed WLAN, Managed WiFi and security solutions that move Sify up the value chain; this will help to mitigate the likely margin pressure this segment will see as India's data market matures. That said, India is a nascent data market and we expect volume growth will outweigh margin declines for the foreseeable future. Sify is adding capacity to its network in order to be ready for the coming rise in data demand and is in the process of upgrading its network with 100 Gigabit optical capabilities. Thus far, Sify built 100 Gigbit fiber optic rings in seven cities, and we think that number can more than double in 2018.

Data Center-centric IT Services

About 45% of Sify's revenue now comes from Data Center-centric IT services. This is where most of Sify's growth is coming from; revenue here increased 51% in F2017. There are four Data Center-centric IT services: managed co-location, cloud, application-led and technology integration-led.

Data Center Services. Sify owns six geographically diverse Tier 3 data centers, across the cities of Chennai, Mumbai, Delhi and Bengaluru. This business offers co-location services and a variety of managed hosting services, such as storage, remote backup, server load balancing and performance monitoring.

Four of the six data centers are fully sold out, one is more than 90% sold out and the last is 20% sold out; Sify expects another 20% to be sold in the next three months. Historically, Sify took a build it and customers will come approach. Now, capacity expansion is based on customer demand; with modular architecture, Sify can minimize upfront expenses until vacant space is sold. In order to meet the growing demand for Data Center services we expect Sify will continue to add Data Center capacity in 2018.

Cloud and Managed Services. Sify's homegrown CloudInfinit platform allows businesses to outsource their IT infrastructure, consuming computing, network, storage, and security services on-demand through a public, private or hybrid multitenant cloud infrastructure. Sify also offers cloud services from industry leaders such as HP (NYSE: HPE, NC) and VMware (NYSE: VMW, NC).

Technology Integration Services. Sify leverages its expertise in building networks and data centers to offer turnkey solutions that bundle the network and data center products with design, implementation and maintenance capabilities. This segment saw a groundswell of activity as Indian government policies are driving the need for large and complex technology modernization projects.

Application Integration Services. Sify developed a suite of applications such as Forum, for supply chain management, and iTest, an online eLearning and assessment tool. Sify also offers industry standard cloud-based services through partnerships with Oracle (NASDAQ: ORCL, NC), SAP (NYSE: SAP, NC) and Microsoft (NASDAQ: MSFT, NC) that help customers migrate business applications to the Cloud.

Sify: Positioned For ICT Convergence

Given the breadth of services, Sify faces formidable competition from traditional players in each market, such as Reliance, TATA Communications and Bharti for telecom services; Reliance, Net Magic and CtrlS for Data Centers; Microsoft, Google (NASDAQ: GOOG, NC) and Amazon (NASDAQ: AMZN, NC) for Cloud and Managed services; Infosys (NASDAQ: INFY, NC), SAP and Oracle for Application Integration; and Wipro (NYSE: WIT, NC), IBM (NYSE: IBM, NC) and HP for Technology Integration.

While each competitor is a recognized leader in its respective markets, Sify is the only one with strengths across the entire ICT ecosystem. This is a distinct competitive advantage, one that we think positions Sify for growth despite the competition. New technologies and business models such as Cloud Computing, mobile apps and M2M applications are changing enterprises' expectations of their telecom service providers. We think firms will more and more look for a multifaceted partner and that is where Sify comes in. Sify's ability to offer a comprehensive all-in-one model comprised of diverse service capabilities eliminates a business' need to work with multiple vendors; this results in lower total cost of ownership (TCO) and accelerated times to market as applications and other business initiatives roll out.

Sify's strategy is yielding tangible results. A recent win with the Department of Posts, India is a prime example of the scale and relevance of Sify's network and how the company's managed network and technology integration capabilities are opening it up to large government technology transformation projects. The DoP wanted to connect and standardize IT services across 153,000 offices. In phase one of this project, Sify connected 30,000 offices, delivering what is now the largest MPLS network in India, reducing DoP operating costs by 50%. This project helped drive Technology Integration Services revenue up 58% in F2017; we do not view this project as a one-off event. India is rapidly digitizing and large projects such as this are becoming the norm. Management says it is seeing project opportunities similar in size to the DoP project .

Keeping with the theme of digitization, the Staff Selection Commission in the Government of India selected Sify to migrate from traditional paper and pencil mode of testing to computer-based testing. Leveraging iTest, its in-house examination application, with its data center infrastructure and managed services, Sify tested 6.45 million candidates in one month for what previously would have taken more than a year to complete; this was one of the largest on online examinations for the SSC.

Another sizable project that highlights the differentiated value of Sify's system of services as ICT services converge was with UPPCL, a state government power distribution company in India. Historically, businesses such as UPPCL would pay separately for the various pieces of a solution, including network, data centers and customer applications. Sify developed India's first pay-per-module, pay-per-transaction model with Cloud infrastructure, network and application delivery offered as a bundled service with UPPCL only paying Sify on a per transaction basis. We think this type of outcome based pricing is the future of IT; Sify is well positioned to lead as the market heads in this direction.

Riding A Wave Of Growth In India

Sify offers investors a vehicle to invest in India through a company with a sound financial profile at the heart of the country's digital transformation. India is one of the world's fastest growing economies. The International Monetary Fund forecasts GDP growth of 7.4% in 2018, with India expected to surpass Japan, Germany, Britain and France and become the world's third largest economy by 2030. More important to Sify is the extent and pace of digitization in India which will drive demand for IT and telecommunication services.

With the number of Internet and smart phone users rapidly growing, we think India is in the early stages of a digital revolution that is being spurred on by the Indian Government's economic reform agenda. ***Digital India*** is a campaign launched by the government to transform India into a completely digital country. Two of the components of Digital India are the development of digital infrastructure and the delivery of government services digitally. In terms of digital infrastructure, the National Optical Fiber Network project aims to bring broadband to all, connecting 250,000 rural villages by the end of 2019. Expanded online access will enable the electronic delivery of government services and social benefits and the broader reformation of government through technology. For example, AADHAR, the social security equivalent of India, is being turned into a unique digital identity linked to a citizen's bank account, tax returns, government benefits, passport and driver's license. The eventual goal is to have 1 billion AADHAR cards linked to 1 billion bank accounts and 1 billion mobile phones.

India's recent headline grabbing policy initiatives, including demonetization (the cancellation of all 500 and 1,000 bank notes) and the new uniform Good and Services Tax reform, play to this broader theme of digitization. While these reforms created some near-term headwinds for the economy, the longer-term effect will be to drive more transactions online, be they digital payments or the reporting and collection of taxes.

Digitization = Big Growth Opportunities For Sify

The push toward digitization is driving a groundswell of demand for Sify's services. According to the Internet and Mobile Association of India, the telecom services market is projected to grow at a 10% CAGR to approximately $104 billion by 2020, but we see greater growth potential for Sify's Data Center-centric services.

As digital transformation takes hold, more businesses will start outsourcing applications and IT infrastructure. Gartner (NYSE: IT, NC) projects the market for public Cloud services, including Cloud application services (SaaS), Cloud application infrastructure services (PaaS) and Cloud system infrastructure services (IaaS), will more than double to $4.1 billion by 2020, from $1.8 billion in 2017. Moreover, the growth in Cloud services will drive demand for multi-tenant data center capacity. 451 Research, a global IT analyst firm, projects the co-locations and managed hosting market in India will reach almost $2 billion in 2019, up from $1.3 billion in 2016.

Recent Results

In F2017, revenue rose 19.6% to $275 million. Telecom Services grew 7%, but the main growth was driven by Data Center-centric IT services which benefitted from the secular tailwinds discussed above. Data Center-centric revenue rose 51% in F2017. Within this category, Data Center Services increased 30%, Technology Integration Services grew 58% (driven by large projects such as the Department of Post), and Application Integration Services advanced 103% driven by iTest adoption. The one laggard was Cloud and Managed Services which declined 2% due to the loss of a large customer which offset the addition of nearly 50 new customers in the year. The remainder of Sify's business is much more diversified so we do not think customer concentration is a risk. The gross margin narrowed 380 basis points to 35.6% due primarily to a higher mix of lower-margin Technology Integration Services and a 1,000 basis point decline in Application Integration Services margin owing to a lower-margin, higher-volume iTest customer. Operating expenses grew at a slower pace than revenue, but the EBITDA margin still narrowed to 13.9%, from 16.7% in F2016. EPS increased 27% to $0.05 in F2017.

Revenue in 1H:F18 increased 14% to $146 million. Sify does not give segment detail on a quarterly basis, but we estimate Data Center-centric IT services grew 21%, while Telecom Services declined low single digits owing to a decline in voice termination revenue, a lower margin, commodity business; this masked a 10% gain in Data and Managed services revenue, by our estimate. Given the projected explosion of data consumption in India in the next five to 10 years, we are bullish on the longer-term opportunity for Sify's Telecom business.

The business mix has a big effect on the gross margin given the different margin profile of each segment. In 1H:F18, the gross margin widened 150 basis points, from a year earlier, to 37.7%, partially attributable to the decline in voice revenue. EBITDA rose 17% to $22 million at a margin of 15%. Operating leverage was limited by rising D&A from ongoing network investments, but EPS still increased to $0.04, from $0.02 in 1H:F17.

Financial Projections

Income Statement. In line with the trends thus far this fiscal year, for F2018 we project revenue will rise 10.6% to $304.1 million, the gross margin will widen 160 basis points, and EBITDA will grow 19% to $45.6 million at a margin of 15%, up from 13.9% in F2017. We forecast EPS will grow 25% to $0.07. Because of tax loss carryforwards, we do not estimate any taxes in F2018.

In F2019 and 2020 we project revenue growth of 10% and 8.6%, respectively. We estimate growth across all Sify's businesses with Telecom services up 9.6% and 6% and Data Center-centric IT services up 12% and 11%, respectively. We project the gross margin will narrow to 36.3% in F2019, from 37.1% in F2018, assuming a 100 basis point margin decline in Telecom Services, but we expect greater network and Data Center utilization will enable the gross margin to widen a modest 20 basis points in F2020. Sify is still investing for growth, but we think the company can generate modest operating leverage. As such, we project double-digit EBITDA growth of 13% and 11.8% in F2019 and F2020, respectively. As Sify's network matures, we estimate the pace of D&A growth will slow in F2019 and F2020 producing better earnings leverage. We assume modest tax payments in F2019 and F2020 as the deferred tax asset is gradually exhausted. Based on these assumptions, we forecast EPS growth of about 30% to $0.09 in F2019 and 22% to $0.11 in F2020.

Balance Sheet and Cash Flow. Sify ended F2017 with a net debt position of $37.6 million, comprised of $65.7 million of debt and $28.1 million of cash and cash equivalents. The debt is made up of term loans, with average terms of 3-5 years, and short-term credit facilities, bearing a consolidated average interest rate of about 10%. About $55 million of debt will need to be refinanced in F2018. We do not think Sify will have trouble meeting its obligations as total debt-to-total capital was just 29% and net-debt-to-EBITDA was 0.97x at the close of F2017; we think this gives the company room to raise additional capital as needed. Moreover given Sify's financial improvement in the last five years, the credit rating on the debt was raised to A+, from BBB- in 2012, by ICRA an independent Indian credit rating agency.

Sify has unrecognized deferred tax assets totaling $17 million, mainly comprised of net operating loss carry forwards. As such, the company's earnings to date were largely shielded from taxes, but given the firm's profitability we estimate cash taxes will rise toward the Indian effective corporate tax rate of 30% in the next three to five years. At the close of F2020, we forecast cash and restricted cash of $52.3 million, total debt of $67.7 million, a total debt ratio of 24% and net debt per share of $0.09.

Sify books significant D&A expense, reflective of the company's substantial ongoing investment in the network infrastructure. As such, Sify generates ample cash from operations allowing it to fund most network and data center expansion through internally generated cash. That said, capital expenditures are eating up the majority of cash flow, so free cash flow was only $2.3 million ($0.01 per share) in F2017. We forecast capital outlays of between $30-33 million per year in F2018-F2020, about half of which will be growth capex. Thus, for F2018-F2020, we project respective FCF of $5.2 million ($0.03 per share), $12.3 million ($0.07) and $13.7 million ($0.08). Network investments will be the primary use of cash, but Sify also pays a small dividend that was initiated in F2014 and paid every year since. In F2017, the Board approved a $0.02 per share dividend which equates to a 1.4% current yield.

Sify's is generating better returns on network investments, with the fixed asset turnover ratio rising to 2.9x in F2017, from 2.45x in F2016, leading to ROE of 8.3% in F2017, up from 6.9% in F2016 and 5.5% in F2015. We estimate fixed asset turnover ratios of 3.0x in F2018, 3.4x in F2019 and 3.7x in F2020, and returns on equity rising to 12.3% in F2020.

Risks

Sify's ADRs could be delisted from the NASDAQ. Listing requirements include that the minimum bid price for listed securities be at least $1.00 for a continuous period of at least 30 days. Sify is not currently in violation of this requirement, but it was within the last 12 months and could find itself in violation if its share price declines.

Concentrated ownership. CEO, managing director and Chairman, Mr. Raju Vegesna controls 86% of the outstanding shares. Mr. Vegesna's interests may not always align with the interests of other shareholders.

Foreign currency fluctuations. Sify's functional and presentation currency is the Indian Rupee. About 28% of revenue is derived from overseas. Appreciation of the Rupee could hurt reported results. Likewise, depreciation in the Rupee, while beneficial from an operational standpoint, could cause the value of the USD-traded ADRs to decline.

Margins. Sify operates in highly competitive industries. We expect pricing for these services to decline over time. If Sify cannot offset this with higher value managed services and greater volume, profitability could be impaired.

Valuation

The stock was in a steady decline from mid-2014 through mid-2017 when the shares traded as high as $2.34 and as low as $0.71. The dollar appreciated against the Rupee by about 10% during that time, but aside from this it is hard to point to a reason for the stock's decline as revenue and EBITDA posted impressive respective gains in F2014-F2017 of 60% and 45%.

In early September 2017, the stock began to rally, rising to almost $2 in early October, before giving back some of these gains. We see no discernable catalyst for this improved performance. Despite this move, the stock still trades at just 7.2x our F2018 EV/EBITDA projections. We think EV/EBITDA is a fair way to value the stock at this point in Sify's development since non-cash expenses are masking the company's underlying profit potential, in our opinion.

A group of Indian telecom service providers, such as Bharti Airtel, Tata Communications and Reliance Communications, trade at an average 11.6x projected 2018 EV/EBITDA. Likewise, application and technology integrators such as Wipro, Infosys, HCL, Cognizant and IBM, typically trade in a range of 9x-13x on an EV/EBITDA basis. While these are larger more mature and profitable companies, we expect Sify to post better revenue and EBITDA growth in the next few years and forecast margins will widen as capacity utilization of its network and Data Center assets increases. We, therefore, think a multiple at least in line with the peers is warranted. Thus, our $3 price target is based on 10x our projected EV/EBITDA for F2020 and equates to about 25x our F2020 EPS estimate of $0.11.

Table 1: Sify Technologies Ltd., Income Statement
(Dollars in millions except where noted)

	Jun	Sep	Dec	Mar	F2017	JunA	SepA	DecE	MarE	F2018E	JunE	SepE	DecE	MarE	F2019E	F2020E
Total revenue	**62.4**	**65.6**	**68.7**	**78.3**	**275.0**	**70.7**	**75.3**	**76.6**	**81.4**	**304.1**	**80.0**	**81.9**	**84.1**	**88.5**	**334.5**	**363.1**
COGS	39.9	41.8	44.6	51.0	177.3	43.6	47.4	48.5	51.6	191.2	50.9	52.2	53.5	56.4	213.1	230.7
Gross profit	**22.5**	**23.8**	**24.1**	**27.3**	**97.7**	**27.1**	**27.9**	**28.1**	**29.8**	**112.9**	**29.0**	**29.7**	**30.6**	**32.1**	**121.4**	**132.4**
SG&A	13.2	14.3	13.7	18.1	59.4	16.3	16.7	16.9	17.4	67.3	17.0	17.2	17.5	18.2	69.9	74.8
EBITDA	**9.3**	**9.5**	**10.4**	**9.2**	**38.3**	**10.9**	**11.1**	**11.3**	**12.4**	**45.6**	**12.1**	**12.5**	**13.1**	**13.8**	**51.5**	**57.6**
D&A	6.6	6.5	6.5	6.7	26.2	7.2	8.2	8.0	7.9	31.2	8.1	8.0	7.9	7.9	31.9	32.4
EBIT	**2.7**	**3.0**	**3.9**	**2.5**	**12.1**	**3.7**	**3.0**	**3.3**	**4.4**	**14.4**	**4.0**	**4.5**	**5.1**	**5.9**	**19.6**	**25.3**
Interest and other expense (income)	1.2	1.2	1.6	0.6	4.7	1.4	1.1	1.2	1.2	4.9	1.2	1.2	1.2	1.2	4.7	4.7
Other expense (income)	(0.4)	(0.6)	(0.4)	(0.9)	(2.2)	(0.4)	(1.3)	(0.4)	(0.4)	(2.5)	(0.4)	(0.4)	(0.4)	(0.4)	(1.5)	(1.5)
EBT	**1.9**	**2.3**	**2.6**	**2.8**	**9.6**	**2.7**	**3.2**	**2.5**	**3.7**	**12.0**	**3.2**	**3.8**	**4.3**	**5.1**	**16.5**	**22.1**
Taxes	-	-	-	-	-	-	-	-	-	-	0.2	0.2	0.2	0.3	0.8	2.2
Net income	**1.9**	**2.4**	**2.6**	**2.8**	**9.6**	**2.7**	**3.2**	**2.5**	**3.7**	**12.0**	**3.1**	**3.6**	**4.1**	**4.9**	**15.6**	**19.9**
EPS - diluted	**$0.01**	**$0.01**	**$0.01**	**$0.02**	**$0.05**	**$0.02**	**$0.02**	**$0.01**	**$0.02**	**$0.07**	**$0.02**	**$0.02**	**$0.02**	**$0.03**	**$0.09**	**$0.11**
Dividend	-	-	-	-	**$0.02**	-	-	-	-	**$0.02**	-	-	-	-	**$0.02**	**$0.02**
Shares outstanding - diluted	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0	178.0
Margins																
Gross margin	36.1%	36.3%	35.1%	34.9%	35.5%	38.4%	37.0%	36.7%	36.6%	37.1%	36.3%	36.3%	36.3%	36.2%	36.3%	36.5%
EBITDA	14.9%	14.4%	15.1%	11.7%	13.9%	15.3%	14.8%	14.7%	15.2%	15.0%	15.1%	15.3%	15.5%	15.6%	15.4%	15.9%
Operating margin	4.3%	4.6%	5.6%	3.2%	4.4%	5.2%	3.9%	4.3%	5.5%	4.7%	5.0%	5.6%	6.1%	6.7%	5.9%	7.0%
Net margin	3.0%	3.6%	3.8%	3.5%	3.5%	3.8%	4.2%	3.2%	4.5%	3.9%	3.8%	4.4%	4.9%	5.5%	4.7%	5.5%
Growth YoY																
YoY																
Total revenue	16.1%	14.7%	16.8%	30.8%	19.6%	13.4%	14.8%	11.5%	4.0%	10.6%	13.1%	8.8%	9.7%	8.7%	10.0%	8.6%
Gross profit	1.6%	(0.2%)	18.1%	16.9%	7.8%	20.6%	17.1%	16.5%	9.0%	15.5%	7.0%	6.7%	8.7%	7.7%	7.5%	9.1%
EBITDA	1.2%	(7.1%)	12.3%	3.9%	(0.0%)	16.6%	17.6%	8.3%	34.8%	19.0%	11.4%	12.6%	16.1%	12.1%	13.0%	11.8%
EBIT	1.2%	(7.1%)	12.3%	3.9%	(0.0%)	16.6%	17.6%	8.3%	34.8%	19.0%	11.4%	12.6%	16.1%	12.1%	13.0%	11.8%
EPS	39.5%	14.6%	50.8%	75.9%	26.6%	44.5%	34.7%	(5.0%)	32.1%	25.0%	13.6%	13.1%	66.3%	33.6%	30.5%	27.1%

Sources: Sidoti & Company, LLC. estimates and company reports

Table 2: Sify Technologies Ltd.. Cash Flow Statement
(Dollars in millions except where noted)

	F2017	F2018E	F2019E	F2020E
Net income	$9.6	$12.0	$15.6	$19.9
D&A	26.2	31.2	31.9	32.4
Provision for doubtful accounts	5.7	-	-	-
Stock compensation	0.3	0.3	0.3	0.3
Net finance (income) / expense	4.7	-	-	-
Unrealized (gain) / loss on account of exchange differences	(1.0)	-	-	-
Amortization of leasehold prepayments	0.2	-	-	-
Accounts receivable	(27.5)	(10.2)	(15.3)	(13.7)
Inventory	(6.6)	(0.8)	(2.3)	(1.8)
Prepaid and other current assets	(9.2)	-	-	-
Accounts payable	20.6	2.9	12.1	9.3
Employee benefits	0.4	-	-	-
Deferred income	2.6	-	-	-
Income taxes (paid)/ refund received	0.1	-	-	-
Cash from operating activities	**26.1**	**35.4**	**42.4**	**46.4**
PPE	(23.8)	(30.1)	(30.1)	(32.7)
Intangible assets	(1.1)	-	-	-
Investments in debt securities	(1.1)	-	-	-
Finance income received	1.9	-	-	-
Cash from investing activities	**(24.0)**	**(30.1)**	**(30.1)**	**(32.7)**
Proceeds (purchase) of common stock	4.5	-	-	-
Debt	9.6	-	-	-
Finance expenses paid	(6.4)	-	-	-
Proceeds (repayment) finance lease liabilities	(9.0)	-	-	-
Dividend and distribution tax	(2.5)	(2.6)	(2.6)	(2.6)
Cash from financing activities	**(3.8)**	**(2.6)**	**(2.6)**	**(2.6)**
FX	(0.1)	-	-	-
Net change in cash	(1.8)	2.6	9.7	11.1
Cash at the beginning of period	15.6	13.8	16.4	26.0
Cash at the end of period	**13.8**	**16.4**	**26.0**	**37.1**
FCF	2.3	5.2	12.3	13.7
FCF / share	$0.01	$0.03	$0.07	$0.08

Sources: Sidoti & Company, LLC. estimates and company reports

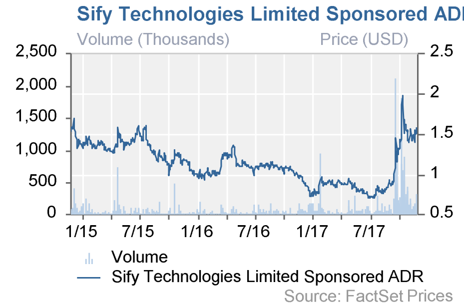
Table 3: Sify Technologies Ltd., Balance Sheet
(Dollars in millions except where noted)

	F2017	F2018E	F2019E	F2020E
Cash	24.2	27.7	37.2	48.3
Restricted cash	3.9	4.1	4.0	4.0
Inventory	$17.6	$19.1	$21.3	$23.1
Accounts receivable	131.0	146.0	160.6	174.3
Prepaid expenses	4.3	4.5	4.5	4.5
Total current assets	**181.1**	**201.3**	**227.6**	**254.2**
PPE	98.8	101.3	99.0	99.3
Intangible assets	8.3	8.6	8.6	8.6
Lease payments	15.2	15.7	15.7	15.7
Other assets	16.7	17.3	17.3	17.3
Other investments	1.1	1.2	1.1	1.1
Total assets	**321.3**	**345.5**	**369.2**	**396.1**
Finance lease obligations	5.0	5.2	5.1	5.1
Borrowings	37.7	39.1	38.9	38.9
Bank overdraft	14.8	15.3	15.2	15.2
Accounts payable	95.0	101.3	112.9	122.3
Deferred income	18.2	18.8	18.7	18.7
Total current liabilities	**170.7**	**179.7**	**190.9**	**200.3**
Finance lease obligations	2.8	2.9	2.9	2.9
Long-term debt	13.2	13.6	13.6	13.6
Employee benefits	1.9	2.0	2.0	2.0
Other liabilities	9.5	9.8	9.8	9.8
Total liabilities	**198.0**	**208.1**	**219.1**	**228.4**
Share capital	22.6	23.8	24.0	24.3
Share premium	278.7	288.9	287.4	287.4
Share based payment reserve	4.6	4.7	4.7	4.7
Other components of equity	0.4	0.4	0.4	0.4
Accumulated defecit	(183.0)	(180.3)	(166.4)	(149.1)
Total stockholders' equity	**123.3**	**137.5**	**150.1**	**167.7**
Total liabilities and equity	**321.3**	**345.5**	**369.2**	**396.1**
ROE	8.3%	9.0%	10.8%	12.3%
Total Debt-to-capital	29.2%	27.7%	25.9%	23.8%
Net debt-to-TTM EBITDA	0.97x	0.79x	0.51x	0.27x
Cash (debt) per share	($0.21)	($0.20)	($0.15)	($0.09)

Sources: Sidoti & Company, LLC. estimates and company reports

Required Disclosures

Sify Technologies Limited Sponsored ADR (SIFY-$1.70) NR Price Target: $3 Risk Rating:H



Risks

Sify's ADRs could be delisted from the NASDAQ. Listing requirements include that the minimum bid price for listed securities be at least $1.00 for a continuous period of at least 30 days. Sify is not currently in violation of this requirement, but it was within the last 12 months and could find itself in violation if its share price declines.

Concentrated ownership. CEO, managing director and Chairman, Mr. Raju Vegesna controls 86% of the outstanding shares. Mr. Vegesna's interests may not always align with the interests of other shareholders.

Foreign currency fluctuations. Sify's functional and presentation currency is the Indian Rupee. About 28% of revenue is derived from overseas. Appreciation of the Rupee could hurt reported results. Likewise, depreciation in the Rupee, while beneficial from an operational standpoint, could cause the value of the USD-traded ADRs to decline.

Margins. Sify operates in highly competitive industries. We expect pricing for these services to decline over time. If Sify cannot offset this with higher value managed services and greater volume, profitability could be impaired.

Valuation

The stock was in a steady decline from mid-2014 through mid-2017 when the shares traded as high as $2.34 and as low as $0.71. The dollar appreciated against the Rupee by about 10% during that time, but aside from this it is hard to point to a reason for the stock's decline as revenue and EBITDA posted impressive respective gains in F2014-F2017 of 60% and 45%.

In early September 2017, the stock began to rally, rising to almost $2 in early October, before giving back some of these gains. We see no discernable catalyst for this improved performance. Despite this move, the stock still trades at just 7.2x our F2018 EV/EBITDA projections. We think EV/EBITDA is a fair way to value the stock at this point in Sify's development since non-cash expenses are masking the company's underlying profit potential, in our opinion.

A group of Indian telecom service providers, such as Bharti Airtel, Tata Communications and Reliance Communications, trade at an average 11.6x projected 2018 EV/EBITDA. Likewise, application and technology integrators such as Wipro, Infosys, HCL, Cognizant and IBM, typically trade in a range of 9x-13x on an EV/EBITDA basis. While these are larger more mature and profitable companies, we expect Sify to post better revenue and EBITDA growth in the next few years and forecast margins will widen as capacity utilization of its network and Data Center assets increases. We, therefore, think a multiple at least in line with the peers is warranted. Thus, our $3 price target is based on 10x our projected EV/EBITDA for F2020 and equates to about 25x our F2020 EPS estimate of $0.11.

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