



Sify Technologies Limited Sponsored ADR (SIFY)

We Raise Our Price Target To \$4 (From \$3); Think Strong Outlook For Revenue And EBITDA Growth Warrants Higher Valuation

	F2017		F2018		F2019E		F2020E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.01	\$0.01		\$0.02		\$0.02		
Sep.	0.01	0.02		0.02		0.02	0.03	
Dec.	0.01	0.02		0.02	0.03	0.02	0.03	
Mar.	<u>0.02</u>	<u>0.02</u>		<u>0.02</u>	<u>0.04</u>	<u>0.02</u>	<u>0.04</u>	
EPS (FY)	\$0.05	\$0.08		\$0.09	\$0.11	\$0.08	\$0.13	
EPS (Cal.)	\$0.07	\$0.09	\$0.10	\$0.08	\$0.12			
P/E (FY)					18.5x		15.7x	
P/E (Cal.)			20.4x		17.0x			
EBITDA (mil)	37.8	42.0		46.6	47.1	55.4	56.1	
EV / EBITDA					8.6x		7.2x	

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, constant currency USD/INR exchange rate of 68.5. 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	F2018	F2019E	F2020E
Rev.(Mil.)	\$154.2	\$150.5	\$157.6	\$174.1	\$205.5	\$226.7	\$284.3	\$318.0	\$358.8	\$405.6
GAAP EPS*	(\$0.15)	(\$0.04)	\$0.05	\$0.03	\$0.03	\$0.04	\$0.06	\$0.08	\$0.11	\$0.13

* GAAP EPS assume a fully diluted share count of 178 million shares. Historical results use USD/INR exchange rate at the end of each fiscal year. Estimates use F2018 year-end INR/USD exchange rate of 65.

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.

- **Sify's Data Center-centric businesses grew a combined 30% in F2018.**
- **Between the ongoing digital transformation of India's economy and Sify's continued investment in its network and data centers, we think Sify is positioned well to sustain a high-rate of growth for several years.**
- **We think we were too cautious with our prior revenue projections, so we raise our estimate to better reflect the growing demand for Sify's services and current trajectory of Sify's business.**
- **We also expect greater earnings leverage as depreciation expense rises at a slower pace than we previously projected.**
- **Our new \$4 price target is based on 12x our F2020 EBITDA estimate of \$56.1 million less current net debt of \$45 million. (We previously valued the stock using a 10x multiple.) This \$4 price target also implies 31x our F2020 EPS estimate of \$0.13.**
- **We think a higher multiple is warranted given our revised estimate and Sify's attractive long-term growth potential.**

The digital transformation of the Indian economy is creating significant growth opportunities for Sify. Although we have been bullish on Sify's growth potential, after spending some time speaking with management and further examining the company's recent results and past track record of growth, we are more confident in Sify's ability to sustain a high rate of revenue growth. Sify is a financially sound secular growth story that we think has built all the right assets to ride the digital transformation of India's economy. India's economy is in the early stages of a considerable digital revolution that will drive greater demand for IT, Cloud and telecommunication services. Moreover, this transformation is being accelerated

NR	
Price Target:	\$4
Price:	\$2.04
Risk Rating:	M
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Key Statistics	
Analysts Covering	0
Market Cap (Mil)	\$360
Enterprise Value	\$405
52-Week Range (NASDAQ)	3-1
5-Year EPS CAGR	25%
Avg. Daily Trading Volume	88,000
Shares Out (Mil)	178.685
Float Shares (Mil)	24.4
Insider Ownership	86%
Institutional Holdings	1%
Annualized Dividend	\$0.02
Dividend Yield	1.0%
FCF Per Share (F2020E)	(\$0.16)
FCF Yield (F2020E)	NM
Net Cash Per Share (F2020E)	(\$0.55)
Price to Book Value	2.6x
Return on Equity (F2020E)	13.8%
Total Debt to Capital	39%
Interest Coverage Ratio	2.2x
Short Interest %	N/A%
Short Interest Days To Cover	5.1
Russell 2000	1,690
Russell 2000 – Last 12 Months	19.4%
SIFY – Last 12 Months	187.1%



by the policy agenda of the Indian government that through initiatives such as Digital India and Smart Cities Mission is rapidly transforming India into a completely digital country. In our view, Sify has all of the necessary assets under one roof to enable the digital transformation of India's economy, and we think the company's unique all-in-one set of services positions the company well to compete against much larger pure-play vendors in the markets it serves. Sify's key assets range from its network infrastructure consisting of: six pan-India data centers, India's largest MPLS (Multi Protocol Label Switching) network, and a terabit scale data network connecting 43 additional data centers to service capabilities including: cloud and managed services, application integration services and technology integration services. As such, Sify's network has both the scale and reach to meet its customers growing demands, in our view.

The growth of Sify's Data Center-centric businesses has been impressive. Sify's Data Center-centric services including Data Center Services, Cloud and Managed Services, Application Integration Services and Technology integration services are the company's primary growth engine. These businesses have compounded 27% annual growth over the last five years, most recently rising 30% in F2018. Exhibit 1 shows a breakdown of growth by business segment.

Exhibit 1: Data Center - Centric Revenue Growth	
	Growth % F2017-F2018
Data Center Services	23%
Cloud & Managed Services	4%
Technology Integration Services	28%
Application Integration Services	45%
Total	30%

We increase our revenue projections... In addition to the strong secular trends favoring the sustained growth of Sify's Data Center-centric services, the company continues to make investments in its infrastructure to meet the expanding demand for its services. For instance, Sify has sold out five of its six existing data centers and has plans to open two more by the end of C2018 that will fuel the growth of the business. In addition, Sify's Telecom services will rebound in F2019. This segment declined 2% in F2018 as Sify deemphasized the voice component of this business. As such, voice revenue declined 20% in F2018 more than offsetting 10% growth in Data revenue. We do not expect a major decline in voice revenue in F2019 and with data revenue still growing we look for this segment to grow 6% in F2019. Considering the strong and growing demand for Sify's services and the current trajectory of its business, we think we were being too conservative with our growth forecasts. We now see Sify's Data Center-centric services growing 18% and 19% in F2019 and F2020, from 9% and 15% respectively. As such, we increase our F2019 and F2020 revenue projections to \$340.4 million (from \$333.1 million) and \$384.9 million (from \$368.2 million). This implies consolidated revenue growth of 12% in F2019 and 13% in F2020, up from a respective 7% and 10.5%.

...as well as our EPS estimates. Sify plans to invest heavily in its network and data centers. Our talks with management gave us a better understanding of the capital costs of a data center are depreciated with a portion of the total cost depreciated as capacity is filled. As such, we expect depreciation expense to rise more gradually and earnings leverage to be stronger than we previously projected. We thus raise our F2019 and F2020 EPS estimate to \$0.11 (from \$0.09) and \$0.13 (from \$0.08), respectively.

We raise our price target to \$4 (from \$3). 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 9x our projections on a F2019 EV/EBITDA basis, SIFY is valued at the low-end of peers in the Indian Telecom and application and technology integration markets that trade in a range of 9x-13x EV/EBITDA. We previously valued the stock by applying a 10x multiple to our F2020 EBITDA estimate. Given our rising estimates and Sify's superior growth potential, we think the stock deserves to trade at the high-end of its peer group. We also see the potential for margins to widen as Sify gains scale. We thus raise our price target to \$4 (from \$3) based on 12x multiple to our F2020 EBITDA forecast of \$56.1 million and subtracting current net debt of \$45 million, to yield \$638 million, or \$3.53 on a per share basis. This \$4 price target also implies 31x our F2020 EPS estimate of \$0.13.

Key Risks

Foreign exchange

Concentrated ownership

SIFY TECHNOLOGIES LIMITED SPONSORED ADR

Table 1: Sify Technologies Ltd., Income Statement

(Dollars in millions except where noted)

	F2017	Jun	Sep	Dec	Mar	F2018	JunE	SepE	DecE	MarE	F2019E	JunE	SepE	DecE	MarE	F2020E
Total revenue	271.1	67.0	71.2	76.9	89.1	304.2	75.1	79.5	85.5	100.3	340.4	84.8	89.6	96.4	114.1	384.9
COGS	174.7	41.3	44.8	51.0	60.2	197.3	49.2	52.1	56.0	66.7	224.0	55.6	58.7	63.2	75.9	253.4
Gross profit	96.3	25.7	26.4	25.9	29.0	106.9	25.9	27.4	29.5	33.6	116.4	29.2	30.8	33.2	38.1	131.4
SG&A	58.5	15.4	15.8	15.5	18.1	64.9	15.6	16.4	17.3	20.1	69.3	16.7	17.6	18.8	22.2	75.3
EBITDA	37.8	10.3	10.5	10.3	10.9	42.0	10.3	11.0	12.2	13.5	47.1	12.5	13.2	14.4	16.0	56.1
D&A	25.9	6.8	7.7	5.8	5.5	25.8	5.5	6.0	6.1	6.2	23.8	6.4	6.5	6.6	6.6	26.0
EBIT	11.9	3.5	2.8	4.5	5.4	16.2	4.8	5.1	6.1	7.3	23.3	6.1	6.7	7.8	9.4	30.0
Interest and other expense (income)	4.6	1.4	1.1	0.9	2.0	5.4	1.1	1.1	1.3	1.3	4.8	1.7	1.7	1.7	1.7	6.8
Other expense (income)	(2.1)	(0.4)	(1.3)	(0.6)	(0.5)	(2.8)	(0.4)	(0.4)	(0.4)	(0.4)	(1.5)	(0.4)	(0.4)	(0.4)	(0.4)	(1.5)
EBT	9.5	2.6	3.0	4.2	3.8	13.6	4.0	4.3	5.2	6.4	19.9	4.8	5.4	6.5	8.1	24.8
Taxes	-	-	-	-	-	-	0.2	0.2	0.3	0.3	1.0	0.5	0.5	0.7	0.8	2.5
Net income	9.5	2.6	3.0	4.2	3.8	13.6	3.8	4.1	4.9	6.1	18.9	4.3	4.8	5.9	7.2	22.3
EPS - diluted	\$0.05	\$0.01	\$0.02	\$0.02	\$0.02	\$0.08	\$0.02	\$0.02	\$0.03	\$0.03	\$0.11	\$0.02	\$0.03	\$0.03	\$0.04	\$0.13
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	35.5%	38.4%	37.0%	33.6%	32.5%	35.1%	34.5%	34.5%	34.5%	33.5%	34.2%	34.5%	34.4%	34.4%	33.4%	34.1%
EBITDA	13.9%	15.3%	14.8%	13.4%	12.2%	13.8%	13.7%	13.9%	14.3%	13.5%	13.8%	14.7%	14.7%	14.9%	14.0%	14.6%
Operating margin	4.4%	5.2%	3.9%	5.9%	6.0%	5.3%	6.3%	6.4%	7.2%	7.3%	6.8%	7.2%	7.5%	8.1%	8.2%	7.8%
Net margin	3.5%	3.8%	4.2%	5.5%	4.3%	4.5%	5.1%	5.1%	5.8%	6.0%	5.6%	5.1%	5.4%	6.1%	6.4%	5.8%
Growth YoY																
YoY																
Total revenue	17.9%	9.2%	10.2%	12.8%	15.8%	12.2%	12.2%	11.7%	11.2%	12.5%	11.9%	12.8%	12.7%	12.7%	13.8%	13.0%
Gross profit	6.2%	16.2%	12.5%	8.0%	7.8%	10.9%	0.8%	4.0%	14.0%	16.0%	8.9%	12.7%	12.6%	12.6%	13.5%	12.9%
EBITDA	(1.5%)	12.4%	12.9%	0.1%	20.4%	11.1%	0.1%	4.7%	18.4%	24.7%	12.1%	21.3%	19.8%	17.9%	17.9%	19.1%
EBIT	(1.5%)	12.4%	12.9%	0.1%	20.4%	11.1%	0.1%	4.7%	18.4%	24.7%	12.1%	21.3%	19.8%	17.9%	17.9%	19.1%
EPS	24.8%	39.2%	29.3%	61.9%	41.1%	43.5%	49.3%	36.9%	17.5%	57.9%	39.2%	12.9%	18.6%	19.2%	19.6%	17.9%

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 68.5

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

Table 2: Sify Technologies Ltd.. Cash Flow Statement

(Dollars in millions except where noted)

	F2017	F2018	F2019E	F2020E
Net income	\$9.4	\$13.6	\$18.9	\$22.3
D&A	25.9	25.8	23.8	26.0
Provision for doubtful accounts	5.6	5.4	-	-
Stock compensation	0.3	0.1	0.3	0.3
Net finance (income) / expense	4.6	5.4	-	-
Unrealized (gain) / loss on account of exchange differences	(1.0)	(0.0)	-	-
Amortization of leasehold prepayments	0.2	0.3	-	-
Accounts receivable	(27.1)	(32.7)	(7.0)	(21.3)
Inventory	(6.5)	7.9	(13.0)	(2.9)
Prepaid and other current assets	(9.1)	(7.6)	-	-
Accounts payable	20.3	8.9	11.3	15.6
Employee benefits	0.4	0.4	-	-
Deferred income	2.5	4.4	-	-
Income taxes (paid)/ refund received	0.1	-	-	-
Cash from operating activities	25.7	31.9	34.3	39.9
PPE	(23.5)	(24.5)	(61.3)	(69.3)
Intangible assets	(1.1)	-	-	-
Investments in debt securities	(1.1)	-	-	-
Finance income received	1.9	-	-	-
Cash from investing activities	(23.7)	(24.5)	(55.4)	(63.4)
Proceeds (purchase) of common stock	4.4	0.2	-	-
Debt	9.5	0.6	24.3	24.3
Finance expenses paid	(6.3)	(7.2)	-	-
Proceeds (repayment) finance lease liabilities	(8.9)	(5.9)	-	-
Dividend and distribution tax	(2.5)	(3.1)	(2.5)	(2.5)
Cash from financing activities	(3.8)	(15.4)	21.8	21.8
FX	(0.1)	-	-	-
Net change in cash	(1.8)	(8.1)	0.7	(1.7)
Cash at the beginning of period	15.6	13.8	5.7	6.4
Cash at the end of period	13.8	5.7	6.4	4.8
FCF	2.2	7.3	(27.0)	(29.4)
FCF / share	\$0.01	\$0.04	(\$0.15)	(\$0.16)

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 68.5

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

Table 3: Sify Technologies Ltd., Balance Sheet

(Dollars in millions except where noted)

	F2017	F2018	F2019E	F2020E
Cash	23.8	29.3	30.4	28.7
Restricted cash	3.9	4.4	4.3	4.3
Inventory	\$17.4	\$9.5	\$22.4	\$25.3
Accounts receivable	129.1	157.6	163.4	184.7
Prepaid expenses	4.3	6.2	6.1	6.1
Total current assets	178.5	206.9	226.7	249.2
PPE	97.4	106.1	136.1	179.3
Intangible assets	8.2	8.6	8.5	8.5
Lease payments	15.0	19.8	19.6	19.6
Other assets	16.5	16.3	16.2	16.2
Other investments	1.1	2.1	2.1	2.1
Total assets	316.7	359.7	409.2	475.0
Finance lease obligations	4.9	1.3	1.3	1.3
Borrowings	37.2	21.6	45.8	70.1
Bank overdraft	14.6	31.2	31.0	31.0
Accounts payable	93.6	108.3	118.7	134.3
Deferred income	17.9	17.2	17.1	17.1
Total current liabilities	168.2	179.6	213.9	253.8
Finance lease obligations	2.7	1.4	1.4	1.4
Long-term debt	13.0	29.6	29.4	29.4
Employee benefits	1.9	2.2	2.2	2.2
Other liabilities	9.4	14.5	14.4	14.4
Total liabilities	195.1	227.3	261.2	301.1
Share capital	22.3	22.3	22.5	22.8
Share premium	274.7	274.9	272.9	272.9
Share based payment reserve	4.5	4.6	4.5	4.5
Other components of equity	0.4	0.5	0.3	6.1
Accumulated deficit	(180.4)	(169.9)	(152.2)	(132.4)
Total stockholders' equity	121.5	132.4	148.0	173.9
Total liabilities and equity	316.7	359.7	409.2	475.0
ROE	8.2%	10.9%	13.6%	13.8%
Total Debt-to-capital	29.2%	27.9%	33.7%	36.4%
Net debt-to-TTM EBITDA	0.97x	1.16x	1.51x	1.73x
Cash (debt) per share	(\$0.21)	(\$0.27)	(\$0.40)	(\$0.55)

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 68.5

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

Appendix
Required Disclosures

Required Disclosures

Sify Technologies Limited Sponsored ADR (SIFY-\$2.04) NR Price Target: \$4 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	11/27/17	1.7	NR	0	H
Risk Rating	4/17/18	2.1			M



Key Risks	Foreign exchange	Concentrated ownership	
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Valuation:

Exhibit 1: Data Center - Centric Revenue Growth	
	Growth % F2017-F2018
Data Center Services	23%
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Total	30%

We raise our price target to \$4 (from \$3). 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 9x our projections on a F2019 EV/EBITDA basis, SIFY is valued at the low-end of peers in the Indian Telecom and application and technology integration markets that trade in a range of 9x-13x EV/EBITDA. We previously valued the stock by applying a 10x multiple to our F2020 EBITDA estimate. Given our rising estimates and Sify’s superior growth potential, we think the stock deserves to trade at the high-end of its peer group. We also see the potential for margins to widen as Sify gains scale. We thus raise our price target to \$4 (from \$3) based on 12x multiple to our F2020 EBITDA forecast of \$56.1 million and subtracting current net debt of \$45 million, to yield \$638 million, or \$3.53 on a per share basis. This \$4 price target also implies 31x our F2020 EPS estimate of \$0.13.

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APPENDIX CONTINUED

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APPENDIX CONTINUED

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