



## Sify Technologies Limited Sponsored ADR (SIFY)

**Expect 2Q:F19 EPS Will Be Flat Year Over Year On 15% Higher Revenue; Sify Is Well Positioned To Capitalize On India's Growing Demand For Cloud, Data Center Services; Maintain \$4 Target**

	F2017		F2018		F2019E		F2020E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.01	\$0.01		\$0.02A		\$0.02		
Sep.	0.01	0.02		0.02		0.03		
Dec.	0.01	0.02		0.03		0.03		
Mar.	<u>0.02</u>	<u>0.02</u>		<u>0.04</u>		<u>0.04</u>		
EPS (FY)	<b>\$0.05</b>	<b>\$0.08</b>		<b>\$0.11</b>		<b>\$0.13</b>		
EPS (Cal.)	\$0.07	\$0.09		\$0.12				
P/E (FY)				<b>12.5x</b>		<b>10.5x</b>		
P/E (Cal.)				11.4x				
EBITDA (mil)	<b>\$39.50</b>	<b>\$43.90</b>		<b>\$50.80</b>		<b>\$59.20</b>		
EV / EBITDA				5.9x		5.1x		

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 65. 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.)	\$118.6	\$118.4	\$131.9	\$160.9	\$197.9	\$231.3	\$283.6	\$318.2	\$353.8	\$407.5
GAAP EPS*	(\$0.14)	(\$0.03)	\$0.04	\$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 and estimates assume a constant currency USD/INR exchange rate of 65.

**Description:** Sify Technologies Ltd., ([www.sifytechnologies.com](http://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.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
TBD	TBD	TBD	TBD	N/A	\$0.02

- **We project revenue climbed 15.4% year over year to \$85.9 million in 2Q:F19, driven by the growing demand for data and Sify's Data Center-centric services.**
- **We estimate 2Q:F19 EBITDA rose 9.2% to \$12 million and model lower depreciation expense amplified the net earnings comparison driving a 38% gain in net income over the prior-year period; however, due to rounding we forecast EPS to be unchanged from a year ago at \$0.02.**
- **Although emerging markets, including India, have come under pressure, we think India remains an attractive market in which to invest. We see Berkshire Hathaway's (NYSE: BRK-B, NC) recent investment in Paytm, India's largest mobile payment processor, as a vote of confidence in the economy's long-term potential.**
- **Paytm's rapid growth is indicative of the digital transformation of India's economy, which is driving exponential growth in demand for data and cloud and data center services.**
- **With its Telecom and Data Center-centric services, Sify will be a primary enabler and beneficiary of this mega-trend, which is transforming India's economy, in our view.**
- **We maintain our \$4 price target, which is based on 12x our F2020 EBITDA estimate of \$59.2 million, less current net debt of \$55 million. This \$4 price target also implies 31x our F2020 EPS estimate of \$0.13.**

**Despite the recent swoon in emerging markets, we think India remains an attractive market in which to invest.** The strengthening U.S. dollar and rising oil prices have put pressure on emerging economies with large current account deficits and dollar denominated liabilities. Indian equities have not been immune. The macro uncertainty led to a 12%

**NR**

Price Target: \$4

Price: \$1.37

Risk Rating: M

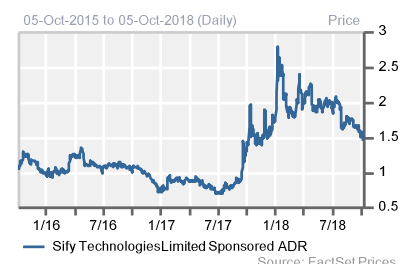
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### Key Statistics

Analysts Covering	0
Market Cap (Mil)	\$245
Enterprise Value	\$300
52-Week Range (NASDAQ)	3-1
5-Year EPS CAGR	25%
Avg. Daily Trading Volume	61,000
Shares Out (Mil)	178.685
Float Shares (Mil)	24.4
Insider Ownership	86%
Institutional Holdings	1%
Annualized Dividend	\$0.02
Dividend Yield	1.4%
FCF Per Share (F2020E)	(\$0.19)
FCF Yield (F2020E)	-13.9%
Net Cash Per Share (F2020E)	(\$0.48)
Price to Book Value	1.9x
Return on Equity (F2020E)	13.3%
Total Debt to Capital	Nil
Interest Coverage Ratio	2.2x
Short Interest %	N/A%
Short Interest Days To Cover	4.5
Russell 2000	1,631
Russell 2000 – Last 12 Months	9.5%
SIFY – Last 12 Months	9.0%



decline in the S&P BSE Sensex over the past two months. We think Sify's stock has been caught in this downdraft with the shares down 17% since the middle of August and 45% over the past six months. That said, the Indian economy continues to post strong growth; with GDP growth of 8.2% in April-June, it remains the fastest growing major economy in the world. We think India is still an attractive market in which to invest. Given the rapid digitization of the economy and growing demand for data and cloud infrastructure, we think Sify remains a good investment for those investors wishing to add India exposure to their portfolios, via individual equities. We think Berkshire Hathaway's recent investment in Paytm, India's largest mobile/e-commerce payments platform is not only an endorsement of Paytm but the long-term potential of the Indian economy.

**The digital transformation of the Indian economy is creating significant growth opportunities for Sify.** The rapid growth of Paytm and other payment services of its ilk is indicative of the digital revolution occurring in India. From Sify's perspective the digital transformation of the Indian economy is creating increasing demand for Cloud and Data infrastructure. The rapidly growing number of smartphone and Internet users ensures that the growth in data and the demand for Sify's Data services won't slow down anytime soon. Moreover, India's digital transformation is being accelerated by the policy agenda of the Indian government; initiatives such as Digital India and Smart Cities Mission are rapidly transforming India into a completely digital country. In our view, Sify has all of the necessary assets to enable the digital transformation of India's economy. Moreover, 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. Sify also continues to invest in its network to support the exponential increases in bandwidth demand from its customers and is putting in the infrastructure to deliver a 4x increase in capacity of its metro networks to 400G. As such, we think Sify's network is unique asset, with has both the reach and capacity to meet its customers growing demands.

**We look for EPS to be flat year over year at \$0.02 in 2Q:F19 on 15% higher revenue.** India's digital transformation is driving significant demand for Sify's Data Center-centric IT services [Data Center Services, Cloud and Managed Services, Applications Integration Services (AIS) and Technology Integration Services (TIS)]. These segments of Sify's business were up a collective 30% in F2018. However Data Center-centric revenue declined 12% in 1Q:F19, where despite a 28% gain in Data Center Services and Cloud and Managed Services, TIS and AIS revenue declined 41%. That said these businesses are more project dependent than Sify's other services and, as Sify recognizes revenue upon project completion, we think the shortfall in 1Q:F19 revenue is a timing issue. Sify had multiple projects that were delayed in 1Q:F19 but they are expected to roll out and convert to revenue in 2Q:F19 and 3Q:F19. Therefore, despite the revenue shortfall in 1Q:F19, we still expect the pace of growth in AIS and TIS to rebound, and for these businesses to show year-over-year growth in F2019. For 2Q:F19 we project revenue rose 15.4% to \$85.9 million. These gains were primarily driven by the company's Data Center-centric IT services, which we project increased 20.9% to \$44.7 million. We forecast the company's Telecom-centric Services revenue increased 10% to \$41.2 million. The business mix has a significant effect on the gross margin given the different margin profile of each segment. In 2Q:F19, we project the gross margin narrowed 240 basis points year over year to 34.6%, partially attributable to a higher mix of TIS and AIS revenue. We project EBITDA rose 9.2% year over year to \$12 million at a margin of 14% down from 14.8% a year ago and that net income to rise 38% for the comparable year-ago period, due to a \$1.9 million decline in depreciation expense; this occurred as Sify completed certain projects where the company maintained ownership of network assets while the project was in progress. Still, due to rounding, we project EPS to be unchanged from a year ago at \$0.02.

	2Q:F19E	2Q:F18A	YoY Change	% Change
Telecom - revenue	41.2	37.5	3.8	10.0%
Data - revenue	44.7	37.0	7.7	20.8%
Total revenue	85.9	74.5	11.5	15.4%
Gross Profit	29.7	27.6	2.2	7.9%
(%)	34.6%	37.0%		
EBITDA	12.0	11.0	1.0	9.2%
(%)	14.0%	14.8%		
Diluted EPS	\$0.02	\$0.02	\$0.01	38.0%

Sources: Sidoti & Company, LLC estimates and company filings

**We maintain our \$4 price target.** We remain very positive on Sify's growth potential, as the demand drivers in India remain very favorable for Sify's services. We think valuing the stock based on a multiple of EV/EBITDA is appropriate now, as high non-cash D&A expense largely "masks" the underlying earnings power of the company, in our view. Trading at about 5x our projections on a F2020EV/EBITDA basis, SIFY stock 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. We value the stock by applying a 12x multiple to our F2020 EBITDA estimate. Given 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 maintain our price target of \$4 which is based on 12x our F2020 EBITDA forecast of \$59.2 million, subtracting current net debt of \$55 million, to yield \$655 million, or \$3.70 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	JunA	SepE	DecE	MarE	F2019E	JunE	SepE	DecE	MarE	F2020E
Total revenue	283.6	70.1	74.5	80.4	93.3	318.2	72.0	85.9	90.1	105.7	353.8	91.3	94.3	101.6	120.2	407.5
COGS	182.8	43.2	46.9	53.4	63.0	206.4	43.8	56.2	59.0	70.3	229.3	59.9	61.9	66.6	80.0	268.4
Gross profit	100.8	26.9	27.6	27.1	30.3	111.8	28.3	29.7	31.1	35.4	124.5	31.4	32.5	35.0	40.2	139.1
SG&A	61.2	16.1	16.6	16.3	18.9	67.9	16.9	17.7	18.1	21.0	73.7	18.3	18.6	19.7	23.3	79.9
EBITDA	39.5	10.8	11.0	10.8	11.4	43.9	11.4	12.0	13.0	14.4	50.8	13.1	13.9	15.3	16.9	59.2
D&A	27.0	7.1	8.1	6.1	5.8	27.0	6.0	6.2	6.1	6.2	24.5	6.4	6.4	6.5	6.6	25.9
EBIT	12.5	3.7	2.9	4.7	5.6	16.9	5.4	5.8	6.8	8.2	26.3	6.7	7.5	8.8	10.3	33.3
Interest and other expense (income)	4.8	1.4	1.1	1.0	2.1	5.6	2.1	1.7	2.0	2.0	7.6	2.5	2.5	2.5	2.5	10.1
Other expense (income)	(2.2)	(0.4)	(1.3)	(0.6)	(0.6)	(2.9)	0.3	(0.4)	(0.4)	(0.4)	(0.9)	(0.4)	(0.4)	(0.4)	(0.4)	(1.5)
EBT	9.9	2.7	3.1	4.4	4.0	14.2	3.1	4.5	5.3	6.6	19.5	4.6	5.4	6.7	8.2	24.8
Taxes	-	-	-	-	-	-	-	0.2	0.3	0.3	0.8	0.5	0.5	0.7	0.8	2.5
Net income	9.9	2.7	3.1	4.4	4.0	14.2	3.1	4.3	5.0	6.3	18.7	4.1	4.8	6.0	7.4	22.3
EPS - diluted	\$0.05	\$0.01	\$0.02	\$0.02	\$0.02	\$0.08	\$0.02	\$0.02	\$0.03	\$0.04	\$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
<b>Margins</b>																
Gross margin	35.5%	38.4%	37.0%	33.6%	32.5%	35.1%	39.2%	34.6%	34.5%	33.5%	35.2%	34.4%	34.4%	34.4%	33.4%	34.1%
EBITDA	13.9%	15.3%	14.8%	13.4%	12.2%	13.8%	15.8%	14.0%	14.4%	13.6%	14.4%	14.4%	14.7%	15.1%	14.1%	14.5%
Operating margin	4.4%	5.2%	3.9%	5.9%	6.0%	5.3%	7.6%	6.8%	7.6%	7.8%	7.4%	7.3%	7.9%	8.7%	8.6%	8.2%
Net margin	3.5%	3.8%	4.2%	5.5%	4.3%	4.5%	4.3%	5.0%	5.6%	6.0%	5.3%	4.5%	5.1%	5.9%	6.1%	5.5%
<b>Growth YoY</b>																
<b>YoY</b>																
Total revenue	22.6%	9.2%	10.2%	12.8%	15.8%	12.2%	2.8%	15.4%	12.1%	13.3%	11.2%	26.7%	9.8%	12.7%	13.8%	15.2%
Gross profit	10.5%	16.2%	12.5%	8.0%	7.8%	10.9%	5.1%	7.9%	14.9%	16.9%	11.3%	11.2%	9.2%	12.6%	13.5%	11.7%
EBITDA	2.5%	12.4%	12.9%	0.1%	20.4%	11.1%	6.0%	9.2%	20.1%	26.6%	15.6%	14.9%	15.6%	18.1%	17.6%	16.6%
EBIT	2.5%	12.4%	12.9%	0.1%	20.4%	11.1%	6.0%	9.2%	20.1%	26.6%	15.6%	14.9%	15.6%	18.1%	17.6%	16.6%
EPS	27.5%	38.3%	29.3%	73.3%	41.1%	46.0%	16.3%	37.9%	14.2%	56.9%	31.9%	32.8%	12.0%	19.9%	16.8%	19.2%

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 65

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

**Table 2: Sify Technologies Ltd.. Cash Flow Statement**

(Dollars in millions except where noted)

	<b>F2017</b>	<b>F2018</b>	<b>F2019E</b>	<b>F2020E</b>
Net income	\$9.9	\$14.2	\$18.7	\$22.3
D&A	27.1	27.0	24.3	25.9
Provision for doubtful accounts	5.9	5.7	-	-
Stock compensation	0.3	0.1	0.3	0.3
Net finance (income) / expense	4.8	5.7	-	-
Unrealized (gain) / loss on account of exchange differences	(1.1)	(0.0)	-	-
Amortization of leasehold prepayments	0.2	0.3	-	-
Accounts receivable	(28.4)	(34.2)	(5.0)	(25.8)
Inventory	(6.8)	8.2	(13.0)	(3.9)
Prepaid and other current assets	(9.5)	(8.0)	-	-
Accounts payable	21.2	9.3	8.3	20.7
Employee benefits	0.4	0.4	-	-
Deferred income	2.7	4.6	-	-
Income taxes (paid)/ refund received	0.1	-	-	-
<b>Cash from operating activities</b>	<b>26.9</b>	<b>33.3</b>	<b>33.6</b>	<b>39.5</b>
PPE	(24.6)	(25.7)	(41.1)	(73.3)
Intangible assets	(1.1)	-	-	-
Investments in debt securities	(1.1)	-	-	-
Finance income received	2.0	-	-	-
<b>Cash from investing activities</b>	<b>(24.8)</b>	<b>(25.7)</b>	<b>(35.0)</b>	<b>(67.2)</b>
Proceeds (purchase) of common stock	4.6	0.2	-	-
Debt	9.9	0.7	25.6	25.6
Finance expenses paid	(6.6)	(7.6)	-	-
Proceeds (repayment) finance lease liabilities	(9.3)	(6.2)	-	-
Dividend and distribution tax	(2.6)	(3.2)	(2.6)	(2.6)
<b>Cash from financing activities</b>	<b>(4.0)</b>	<b>(16.1)</b>	<b>23.0</b>	<b>23.0</b>
FX	(0.1)	-	-	-
Net change in cash	(1.9)	(8.5)	21.6	(4.7)
Cash at the beginning of period	15.2	13.3	4.9	26.5
<b>Cash at the end of period</b>	<b>13.3</b>	<b>4.9</b>	<b>26.5</b>	<b>21.8</b>
FCF	2.3	7.7	(7.5)	(33.8)
FCF / share	\$0.01	\$0.04	(\$0.04)	(\$0.19)

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 65

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

**Table 3: Sify Technologies Ltd., Balance Sheet**

(Dollars in millions except where noted)

	F2017	F2018	F2019E	F2020E
Cash	24.9	30.6	53.0	48.3
Restricted cash	4.0	4.6	4.6	4.6
Inventory	\$18.2	\$9.9	\$22.9	\$26.8
Accounts receivable	135.1	164.8	169.8	195.6
Prepaid expenses	4.5	6.4	6.4	6.4
<b>Total current assets</b>	<b>186.7</b>	<b>216.4</b>	<b>256.8</b>	<b>281.8</b>
PPE	101.9	111.0	120.7	168.2
Intangible assets	8.6	9.0	9.0	9.0
Lease payments	15.7	20.7	20.7	20.7
Other assets	17.3	17.1	17.1	17.1
Other investments	1.1	2.2	2.2	2.2
<b>Total assets</b>	<b>331.3</b>	<b>376.3</b>	<b>426.4</b>	<b>498.9</b>
Finance lease obligations	5.1	1.4	1.4	1.4
Borrowings	38.9	22.6	48.3	73.9
Bank overdraft	15.2	32.6	32.6	32.6
Accounts payable	98.0	113.2	121.5	142.2
Deferred income	18.7	18.0	18.0	18.0
<b>Total current liabilities</b>	<b>176.0</b>	<b>187.9</b>	<b>221.8</b>	<b>268.2</b>
Finance lease obligations	2.9	1.5	1.5	1.5
Long-term debt	13.6	31.0	31.0	31.0
Employee benefits	2.0	2.3	2.3	2.3
Other liabilities	9.8	15.1	15.1	15.1
<b>Total liabilities</b>	<b>204.1</b>	<b>237.8</b>	<b>271.7</b>	<b>318.0</b>
Share capital	23.3	23.4	23.7	24.0
Share premium	287.4	287.6	287.6	287.6
Share based payment reserve	4.7	4.8	4.8	4.8
Other components of equity	0.4	0.5	0.3	6.5
Accumulated deficit	(188.7)	(177.7)	(161.6)	(141.9)
<b>Total stockholders' equity</b>	<b>127.1</b>	<b>138.5</b>	<b>154.7</b>	<b>180.9</b>
<b>Total liabilities and equity</b>	<b>331.3</b>	<b>376.3</b>	<b>426.4</b>	<b>498.9</b>
ROE	8.3%	10.9%	12.8%	13.3%
Total Debt-to-capital	29.2%	27.9%	33.9%	36.7%
Net debt-to-TTM EBITDA	0.97x	1.16x	1.06x	1.42x
Cash (debt) per share	(\$0.22)	(\$0.29)	(\$0.31)	(\$0.48)

Note: Historical results and estimates assume constant currency USD/INR exchange rate of 65

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

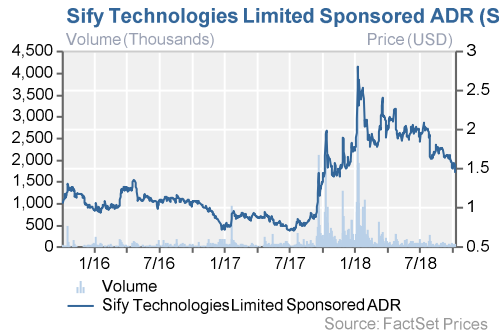
## Appendix Required Disclosures

### Required Disclosures

**Sify Technologies Limited Sponsored ADR (SIFY-\$1.37) 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
PT	7/13/18	2		4	



<b>Key Risks</b>	Foreign exchange	Concentrated ownership	
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#### Valuation:

**We maintain our \$4 price target.** We remain very positive on Sify's growth potential, as the demand drivers in India remain very favorable for Sify's services. We think valuing the stock based on a multiple of EV/EBITDA is appropriate now, as high non-cash D&A expense largely "masks" the underlying earnings power of the company, in our view. Trading at about 5x our projections on a F2020EV/EBITDA basis, SIFY stock 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. We value the stock by applying a 12x multiple to our F2020 EBITDA estimate. Given 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 maintain our price target of \$4 which is based on 12x our F2020 EBITDA forecast of \$59.2 million, subtracting current net debt of \$55 million, to yield \$655 million, or \$3.70 on a per share basis. This \$4 price target also implies 31x our F2020 EPS estimate of \$0.13.

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