



Sify Technologies Limited Sponsored ADR (SIFY)

3Q:F20 Revenue Missed, EBITDA Beat Our Estimates; Slowing Indian Economy Tempering Near-Term Growth Prospects; But Sify Still Well Positioned For Longer-Term Gains; Maintain \$4 Target

	F2019		F2020E		F2021E		F2022E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.02	\$0.02A		\$0.01			\$0.02	
Sep.	0.02	0.02A		0.02			0.02	
Dec.	0.03	0.02	0.01A	0.02			0.03	
Mar.	0.03	0.02	0.01	0.02			0.03	
EPS (FY)	\$0.09	\$0.07	\$0.06	\$0.07			\$0.09	
EPS (Cal.)	\$0.08	\$0.07	\$0.06		\$0.09			
P/E (FY)			21.5x	18.4x			14.3x	
P/E (Cal.)			21.5x		14.3x			
EBITDA (mil)	\$48.0	\$62.4	\$63.3	\$69.7	\$69.1		\$76.7	
EV/EBITDA			5.0x		4.6x		4.1x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. F2018-F2021E 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. *EPS including amortization expense. *EPS including amortization expense.

Year	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020E	F2021E	F2022E
Rev.(Mil.)	\$131.9	\$160.9	\$197.9	\$231.3	\$283.6	\$318.2	\$331.5	\$357.3	\$382.7	\$415.6
GAAP EPS*	\$0.04	\$0.03	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.06	\$0.07	\$0.09

* GAAP EPS assume a fully diluted share count of 178 million. Historical results and estimates assume a constant currency USD/INR 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.

- Revenue in 3Q:F20 increased 2.8%%, year over year, to \$90.6 million, missing our \$93.2 million estimate.
- We think Sify is well positioned to benefit from the digital transformation of India's economy, but management noted the recent slowdown in GDP growth is extending sales cycles and delaying buying decisions.
- We tempered our revenue estimates for F2020 and F2021 to \$357.3 million (from \$366.1 million) and \$382.7 million (from \$400.2 million), respectively.
- Despite the revenue miss, EBITDA increased 40% to \$17 million, topping our \$16.1 million estimate as management controlled operating expense. The gain was aided by a change in lease accounting. Excluding the change, EBITDA was still up 23%.
- Higher depreciation, interest and tax expense resulted in EPS declining to \$0.01 from \$0.03 in 3Q:F19, below our \$0.02 forecast in large part due to rounding.
- Given the better-than-expected margins in 3Q:F20, our EBITA and EPS forecasts are largely unchanged.
- SIFY now trades at just 4.1x our new F2022 EBITDA estimate; this is a significant discount to the peer group range of 9x-13x estimated 12 month forward EBITDA.
- The \$4 price target is based on 12x our F2022 EBITDA estimate of \$76.7 million, less projected net debt of \$130 million. The \$4 price target implies 44x our new F2022 EPS estimate of \$0.09.

Revenue in 3Q:F20 increased 2.8%, from a year earlier, to \$90.6 million, missing our \$93.2 million estimate. The miss was driven by weaker growth from the Data Center and Cloud and Managed Services. Results from Sify's other segments were roughly in line with

NR

Price Target: \$4

Price: \$1.29

Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$230
Enterprise Value	\$315
52-Week Range (NASDAQ)	2-1
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	33,000
Shares Out (Mil)	178.514
Float Shares (Mil)	24.1
Insider Ownership	86%
Institutional Holdings	1%
Annualized Dividend	\$0.01
Dividend Yield	1.1%
FCF Per Share (F2022E)	\$0.02
FCF Yield (F2022E)	1.6%
Net Cash Per Share (F2022E)	(\$0.72)
Price to Book Value	1.5x
Return on Equity (F2022E)	8.7%
Total Debt to Capital	48%
Interest Coverage Ratio	1.9x
Short Interest %	N/A
Short Interest Days To Cover	0.3
Russell 2000	1,674
Russell 2000 – Last 12 Months	15.9%
SIFY – Last 12 Months	-17.2%



our forecasts with revenue from Network Services, Application Integration Services growing 8% and 12%, respectively, while Technology Integration Services revenue declined 24%. The Indian economy is slowing; but our view is that Sify is still well positioned to grow despite the macro weakness as the secular digital transformation of the Indian economy will drive demand for services. Management noted on the earnings call that sales cycles are extending as customers in large end markets, such as banking and manufacturing, are delaying buying decisions. So, although Sify's Data Center and Cloud and Management Services posted growth of 15% and 7%, respectively, this was below the 25% and 22% respective growth that we estimated for 3Q:F20. In the near-term, we now project more moderate revenue growth as the Indian economy works through this soft patch. That said, we are bullish on Sify's longer-term growth potential as we think the end-to-end service offering, including everything from infrastructure-led telecom and data center services to practice-led Cloud and Managed Services, position the company to benefit from the large scale secular trends that are transforming the Indian economy.

EBITDA topped our estimate, but EPS were below our forecast. Given the different margin profiles of Sify's businesses, revenue mix affects margins. With a greater mix of Data and Cloud Services in 3Q:F20, the gross margin widened to 36.7%, from 34.1% in 3Q:F19, roughly in line with our forecast. Management, however, is doing a good job managing spending given the slowdown in activity, with SG&A outlays coming in \$2 million below our estimate at \$16.3 million. As a result, EBITDA increased 40% to \$17 million, topping our \$16.1 million estimate. Adjusting for a change in lease accounting that reduced SG&A, EBITDA was up 23% on a comparable basis. Higher depreciation expense tied to Sify's network and data center investments, higher interest expense (Sify is using debt to fund capital investments) and a higher tax rate (Sify fully utilized deferred tax assets) led to a net income decline of 47% to \$2.5 million and EPS of \$0.01, from \$0.03 in 3Q:F19, and below our \$0.02 estimate.

We adjusted our F2020 and F2021 estimates and introduce F2022 projections. Considering the 3Q:F20 results and management's cometary about a slowdown in growth rates, we trimmed our F2020 and F2021 revenue estimates to \$357.3 million (from \$366.1 million) and \$382.7 million (from \$400.2 million), respectively. Based on the better-than-projected margin in 3Q:F20, our EBITDA and EPS estimates are largely unchanged despite the lower revenue forecasts. For F2022, we project revenue will rise 8.6% to \$415.6 million; we project EBITDA of \$76.7 million and EPS of \$0.09, reflecting growth of 10.9% and 36.0%, respectively.

Exhibit 1: Sify Technologies Variance Analysis						
	3Q:F20E	3Q:F20A	Var	3Q:F19A	3Q:F20A	% Change
Total revenue	93.2	90.6	(2.6)	88.2	90.6	2.8%
Gross Profit	34.4	33.3	(1.1)	30.1	33.3	10.6%
(%)	36.9%	36.8%		34.1%	36.8%	
EBITDA	16.1	17.0	0.9	12.1	17.0	40.5%
(%)	17.3%	18.8%		13.7%	18.8%	
Diluted EPS	\$0.02	\$0.01	(\$0.00)	\$0.03	\$0.01	-47.4%

Sources: Sidoti & Company, LLC estimates and company filings

Valuation

We maintain a \$4 price target. Despite the recent slowdown in growth, India's economy is undergoing a digital revolution that is driving exponential growth in data and demand for connectivity, as well as data center and higher-value cloud and managed services. We think Sify will be a primary beneficiary of the digitization of India's economy, as more government and private sector business is conducted online and in the Cloud. Trading at 4.1x our projections on a F2022 EV/EBITDA basis, SIFY is valued at a discount to peers in the India Telecom and application and technology integration markets, that trade in a range of 9x-13x EV/EBITDA. Given Sify's superior growth potential, in our opinion, we think the stock deserves to trade at the high-end of the peer group range. Thus, the \$4 price target is based on 12x our F2022 EBITDA estimate of \$76.7 million, and then we subtract projected net debt of \$130 million, to yield \$790 million, or \$4.40 on a per share basis. This \$4 price target implies 44x our F2022 EPS estimate of \$0.09. (We previously valued the stock based on our former F2021 EBITDA forecast of \$69.7, and then subtracted projected net debt of \$139 million, to yield \$697 million, or \$3.90 on a per share basis.)

Key Risks

Foreign exchange

Concentrated ownership

SIFY TECHNOLOGIES LIMITED SPONSORED ADR

Table 1: Sify Technologies Ltd., Income Statement

(Dollars in millions except where noted)

	Jun	Sep	Dec	Mar	F2019	JunA	SepA	DecA	MarE	F2020E	JunE	SepE	DecE	MarE	F2021E	F2022E
Total revenue	72.0	84.8	88.2	86.5	331.5	84.9	89.3	90.6	92.4	357.3	92.1	94.2	97.2	99.1	382.7	415.6
COGS	43.8	53.4	58.1	54.6	209.8	54.6	56.2	57.4	58.5	226.6	58.1	59.5	61.2	62.5	241.2	260.4
Gross profit	28.3	31.4	30.1	32.0	121.7	30.3	33.2	33.3	33.9	130.7	34.1	34.8	36.0	36.6	141.4	155.2
SG&A	16.9	19.5	18.0	19.3	73.7	16.8	16.9	16.3	17.6	67.5	18.0	18.1	18.0	18.4	72.5	78.7
EBITDA	11.4	11.9	12.1	12.6	48.0	13.4	16.3	17.0	16.4	63.1	16.1	16.7	18.0	18.2	69.0	76.5
D&A	6.0	5.9	5.7	6.1	23.6	7.8	8.1	9.3	9.4	34.5	9.4	9.4	9.4	9.4	37.6	38.0
EBIT	5.4	6.0	6.5	6.6	24.4	5.7	8.2	7.7	7.0	28.6	6.7	7.3	8.6	8.8	31.4	38.5
Interest and other expense (income)	2.1	2.7	2.7	3.1	10.5	1.0	4.0	3.9	4.0	12.9	4.0	4.0	4.0	4.0	15.9	16.8
Other expense (income)	0.3	(0.6)	(1.0)	(1.2)	(2.6)	(0.2)	(0.1)	(0.1)	(0.5)	(1.0)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)	(2.2)
EBT	3.1	3.9	4.8	4.7	16.5	4.9	4.3	3.8	3.6	16.6	3.2	3.8	5.2	5.3	17.6	23.9
Taxes	-	-	-	-	-	1.6	1.4	1.3	1.1	5.3	1.0	1.2	1.5	1.6	5.3	7.2
Net income	3.1	3.9	4.8	4.7	16.5	3.3	2.9	2.5	2.5	11.3	2.3	2.7	3.6	3.7	12.3	16.7
EPS - diluted	\$0.02	\$0.02	\$0.03	\$0.03	\$0.09	\$0.02	\$0.02	\$0.01	\$0.01	\$0.06	\$0.01	\$0.02	\$0.02	\$0.02	\$0.07	\$0.09
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	39.2%	37.0%	34.1%	36.9%	36.7%	35.7%	37.1%	36.7%	36.7%	36.6%	37.0%	36.9%	37.0%	37.0%	37.0%	37.3%
EBITDA	15.8%	14.0%	13.7%	14.6%	14.5%	15.8%	18.3%	18.7%	17.7%	17.7%	17.5%	17.7%	18.5%	18.4%	18.0%	18.4%
Operating margin	7.6%	7.0%	7.3%	7.6%	7.4%	6.7%	9.2%	8.5%	7.6%	8.0%	7.3%	7.7%	8.8%	8.9%	8.2%	9.3%
Net margin	4.3%	4.6%	5.4%	5.4%	5.0%	3.9%	3.3%	2.8%	2.7%	3.2%	2.5%	2.8%	3.7%	3.8%	3.2%	4.0%
Growth YoY																
YoY																
Total revenue	2.8%	13.8%	9.6%	(7.2%)	4.2%	17.8%	5.4%	2.8%	6.8%	7.8%	8.5%	5.5%	7.3%	7.2%	7.1%	8.6%
Gross profit	5.1%	13.8%	11.3%	5.5%	8.8%	7.1%	5.8%	10.5%	6.2%	7.4%	12.5%	4.8%	8.2%	7.9%	8.2%	9.7%
EBITDA	5.9%	7.7%	12.3%	11.4%	9.3%	17.9%	37.6%	40.0%	29.6%	31.4%	19.6%	2.2%	6.0%	11.1%	9.2%	10.9%
EBIT	5.9%	7.7%	12.3%	11.4%	9.3%	17.9%	37.6%	40.0%	29.6%	31.4%	19.6%	2.2%	6.0%	11.1%	9.2%	10.9%
EPS	16.0%	24.7%	9.5%	17.2%	16.2%	7.5%	(24.5%)	(47.4%)	(46.8%)	(31.6%)	(31.8%)	(8.7%)	42.9%	49.5%	8.9%	36.0%

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

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

Table 2: Sify Technologies Ltd.. Cash Flow Statement

(Dollars in millions except where noted)

	F2019	F2020E	F2021E	F2022E
Net income	\$16.5	\$11.4	\$12.3	\$16.7
D&A	23.6	33.7	37.6	38.0
Provision for doubtful accounts	8.3	-	-	-
Stock compensation	0.1	0.2	0.2	0.2
Net finance (income) / expense	10.5	-	-	-
Unrealized (gain) / loss on account of exchange differences	1.0	-	-	-
Amortization of leasehold prepayments	0.3	-	-	-
Accounts receivable	(33.6)	(2.3)	(13.9)	(18.1)
Inventory	(16.5)	3.7	(1.5)	(1.9)
Prepaid and other current assets	1.9	-	-	-
Accounts payable	18.5	1.5	8.2	10.7
Employee benefits	0.4	-	-	-
Deferred income	-	-	-	-
Income taxes (paid)/ refund received	(8.7)	-	-	-
Cash from operating activities	22.2	48.2	42.9	45.5
PPE	(58.4)	(85.2)	(38.3)	(41.6)
Intangible assets	(2.7)	-	-	-
Investments in debt securities	(0.6)	-	-	-
Finance income received	0.4	-	-	-
Cash from investing activities	(61.1)	(85.2)	(38.3)	(41.6)
Proceeds (purchase) of common stock	14.4	-	-	-
Debt	48.2	38.5	7.7	7.7
Finance expenses paid	(10.9)	-	-	-
Proceeds (repayment) finance lease liabilities	(1.4)	-	-	-
Dividend and distribution tax	(3.4)	(2.6)	(2.6)	(2.6)
Cash from financing activities	47.0	35.8	5.1	5.1
FX	-	-	-	-
Net change in cash	8.1	(1.1)	9.7	9.1
Cash at the beginning of period	2.2	10.3	9.2	18.9
Cash at the end of period	10.3	9.2	18.9	28.0
FCF	(36.2)	(37.0)	4.6	4.0
FCF / share	(\$0.20)	(\$0.21)	\$0.03	\$0.02

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

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

Table 3: Sify Technologies Ltd., Balance Sheet

(Dollars in millions except where noted)

	F2019	F2020E	F2021E	F2022E
Cash	29.8	28.7	38.4	47.4
Restricted cash	4.8	4.8	4.8	4.8
Inventory	\$26.4	\$22.7	\$24.1	\$26.0
Accounts receivable	194.3	196.6	210.5	228.6
Prepaid expenses	6.2	6.2	6.2	6.2
Total current assets	261.4	258.9	283.9	313.0
PPE	132.9	184.3	185.0	188.6
Intangible assets	8.9	8.9	8.9	8.9
Lease payments	20.3	20.3	20.3	20.3
Other assets	28.2	28.2	28.2	28.2
Other investments	3.0	3.0	3.0	3.0
Total assets	454.7	503.6	529.4	562.0
Finance lease obligations	1.1	1.1	1.1	1.1
Borrowings	51.2	89.7	97.4	105.1
Bank overdraft	23.9	23.9	23.9	23.9
Accounts payable	125.4	126.9	135.1	145.8
Deferred income	-	-	-	-
Total current liabilities	222.1	262.1	278.0	296.4
Finance lease obligations	0.4	0.4	0.4	0.4
Long-term debt	51.2	51.2	51.2	51.2
Employee benefits	2.6	2.6	2.6	2.6
Other liabilities	18.4	18.4	18.4	18.4
Total liabilities	294.7	334.7	350.6	369.0
Share capital	27.8	27.9	28.1	28.2
Share premium	297.7	297.7	297.7	297.7
Share based payment reserve	4.7	4.7	4.7	4.7
Other components of equity	0.8	0.8	0.8	0.8
Accumulated defecit	(165.2)	(156.4)	(146.7)	(132.6)
Total stockholders' equity	165.8	174.8	184.6	198.9
Total liabilities and equity	460.6	509.5	535.2	567.9
ROE	10.9%	6.8%	6.8%	8.7%
Total Debt-to-capital	38.2%	44.6%	44.6%	44.0%
Net debt-to-TTM EBITDA	1.91x	2.07x	1.87x	1.67x
Cash (debt) per share	(\$0.52)	(\$0.74)	(\$0.73)	(\$0.72)

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

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

Appendix Required Disclosures

Required Disclosures

Sify Technologies Limited Sponsored ADR (SIFY-\$1.29) 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	3	H
Risk Rating	4/17/18	2.1			M
PT	7/13/18	2		4	



Valuation	<p>We maintain a \$4 price target. Despite the recent slowdown in growth, India's economy is undergoing a digital revolution that is driving exponential growth in data and demand for connectivity, as well as data center and higher-value cloud and managed services. We think Sify will be a primary beneficiary of the digitization of India's economy, as more government and private sector business is conducted online and in the Cloud. Trading at 4.1x our projections on a F2022 EV/EBITDA basis, SIFY is valued at a discount to peers in the India Telecom and application and technology integration markets, that trade in a range of 9x-13x EV/EBITDA. Given Sify's superior growth potential, in our opinion, we think the stock deserves to trade at the high-end of the peer group range. Thus, the \$4 price target is based on 12x our F2022 EBITDA estimate of \$76.7 million, and then we subtract projected net debt of \$130 million, to yield \$790 million, or \$4.40 on a per share basis. This \$4 price target implies 44x our F2022 EPS estimate of \$0.09. (We previously valued the stock based on our former F2021 EBITDA forecast of \$69.7, and then subtracted projected net debt of \$139 million, to yield \$697 million, or \$3.90 on a per share basis.)</p>		
Key Risks	Foreign exchange	Concentrated ownership	

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