



## Sify Technologies Limited Sponsored ADR (SIFY)

**2Q:F21 Revenue, EBITDA Beat Our Forecasts; Demand For Sify's Data Center Centric Services Remains Strong As Pandemic Accelerates India's Digital Transformation; Maintain \$4 Target**

	F2019		F2020		F2021E		F2022E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.02	\$0.02		\$0.01A		\$0.02	\$0.01	
Sep.	0.02	0.02		0.01	0.02A	0.02		
Dec.	0.03	0.01		0.02		0.02		
Mar.	<u>0.03</u>	<u>0.01</u>		<u>0.02</u>		<u>0.03</u>		
EPS (FY)	<b>\$0.09</b>	<b>\$0.06</b>		<b>\$0.06</b>	<b>\$0.07</b>	<b>\$0.09</b>		
EPS (Cal.)	\$0.08	\$0.06	\$0.07	\$0.08				
P/E (FY)					<b>15.6x</b>	<b>12.1x</b>		
P/E (Cal.)			15.6x	13.6x				
EBITDA (mil)	<b>\$48.00</b>	<b>\$62.70</b>		<b>\$70.10</b>	<b>\$72.40</b>	<b>\$75.10</b>	<b>\$76.90</b>	
EV / EBITDA					4.5x		4.2x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. F2019-F2022E 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.

Year	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020	F2021E	F2022E
Rev.(Mil.)	\$131.9	\$160.9	\$197.9	\$231.3	\$283.6	\$318.2	\$331.5	\$353.1	\$359.2	\$389.0
GAAP EPS	\$0.04	\$0.03	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.06	\$0.07	\$0.09

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 2Q:F21 increased 1.6%, year over year, to \$90.8 million, topping our \$85 million estimate as steady growth in Sify's Data Center and Cloud services were complemented by a strong rebound in the company's Technology Integration services.**
- **Continued spending discipline led to a 12% gain in EBITDA to \$18.3 million, which also beat our \$16.4 million estimate. Lower interest expense resulted in net income increasing 35% and EPS of \$0.02, as compared with our \$0.01 estimate.**
- **The pandemic is still pressuring portions of Sify's business, which in turn, mask the strong growth from the company's Data Center Centric IT services.**
- **We think this is where investor attention should remain focused as, in our view, Sify's integrated Data Center, Cloud and Network services will make it a primary beneficiary of India's digital transformation.**
- **Sify is managing its liquidity well and generated strong cash flow in 2Q:F21, ending the quarter with cash of \$65 million, up from \$55 million at the end of 1Q:F21.**
- **SIFY stock trades at just 4.2x our new F2022 EBITDA estimate, a significant discount to the peer group range of 8x-12x estimated 12-month forward EBITDA.**
- **The \$4 price target is based on 12x our F2022 EBITDA estimate of \$77 million, less projected net debt of \$130 million. The \$4 price target implies 44x our new F2022 EPS estimate of \$0.09.**
- **Given the company's growth potential and modest leverage of 1.25x net debt-to-TTM EBITDA, we maintain our Moderately Risky rating.**

**Demand for Sify's Data Center Centric services remains strong as 2Q:F21 revenue topped our forecast.** The pandemic is still impacting certain areas of Sify's business, but after taking a step back in the June quarter, the company returned to revenue growth in

**NR**

Price Target: \$4

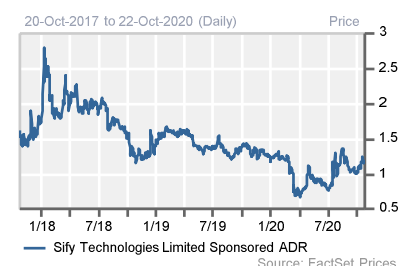
Price: \$1.09

Risk Rating: M

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### Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$200
Enterprise Value	\$326
52-Week Range (NASDAQ)	1-1
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	127,000
Shares Out (Mil)	178.514
Float Shares (Mil)	24.1
Insider Ownership	86%
Institutional Holdings	1%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (F2022E)	\$0.06
FCF Yield (F2022E)	5.5%
Net Cash Per Share (F2022E)	(\$0.50)
Price to Book Value	1.4x
Return on Equity (F2022E)	8.2%
Total Debt to Capital	40%
Interest Coverage Ratio	2.1x
Short Interest %	N/A%
Short Interest Days To Cover	1.3
Russell 2000	1,626
Russell 2000 – Last 12 Months	5.1%
SIFY – Last 12 Months	-14.6%



2Q:F21, increasing 1.6% to \$90.8 million, beating our \$85 million estimate. We think the pandemic is driving demand for Sify's infrastructure and cloud services, as it is accelerating the digital transformation and cloud adoption of businesses in India. The company's results in 2Q:F21 bear this out with revenue from Data Center Centric IT services increasing 12%. By business line, Sify's Data Center, Cloud and Technology Integration Services grew 36%, 9% and 22% respectively. While Data Center and Cloud grew in line with our expectations, we estimated Technology Integration Services to decline 40%, in line with 1Q:F21. This project-based part of Sify's business saw a sharp decline in activity at the onset of the pandemic, but it appears businesses are now starting to move forward with their digital transformation and optimization plans, a positive sign, in our view, for the future demand for Sify's Data Center, Cloud, and Network services. However, two areas of Sify's business continue to be pressured by the pandemic: the Network services, which declined 8% as the pandemic reduced consumption of low-margin voice services and Application Integration Services, where the pandemic led to a steep reduction in Sify's iTest services. The declines in these two areas are somewhat masking the strong growth of Sify Data Center and Cloud services, but we expect the company's true growth to become more evident as the pandemic-related challenges subside.

**EBITDA in 2Q:F21 also came in above our expectations.** The gross margin widened 110 basis points to 38.2% owing to a favorable revenue mix, with higher-margin Data Center and Cloud Services making up a greater percentage of revenue. Management is also effectively managing spending during the pandemic, with operating expenses declining \$0.5 million from a year ago, coming in slightly below our forecast. As a result, EBITDA increased 12% to \$18.3 million, topping our \$16.4 million estimate. Net income increased 35% due mainly to a reduction in interest expense. However, rounding resulted in EPS of \$0.02, which topped our \$0.01 estimate but was in line with 2Q:F20.

<b>Valuation</b>	<b>We maintain a \$4 price target.</b> While the COVID-19 virus is curbing economic growth in the near term, it does not change the long-term digital transformation of India's economy. We think Sify will be a primary beneficiary of this transformation. With the stock trading at 4.2x our projections on a F2022 EV/EBITDA basis, SIFY is valued at a significant discount to peers in the India Telecom and application and technology integration markets, that trade in a range of 8x-12x EV/EBITDA. Given Sify's growth potential, we think the stock deserves to trade at the high-end of the peer group range. Thus, we base the \$4 price target on 12x our F2022 EBITDA estimate of \$77 million, less projected net debt of \$130 million, to yield \$795 million, or \$4.50 on a per share basis. Given the company's growth potential and modest leverage of 1.25x net debt-to-TTM EBITDA, we maintain a Moderately Risky rating.		
<b>Key Risks</b>	Foreign exchange	Concentrated ownership	

## SIFY TECHNOLOGIES LIMITED SPONSORED ADR

**Table 1: Sify Technologies Ltd., Income Statement**

(Dollars in millions except where noted)

	F2019	Jun	Sep	Dec	Mar	F2020	JunA	SepA	DecE	MarE	F2021E	JunE	SepE	DecE	MarE	F2022E
<b>Total revenue</b>	<b>331.5</b>	<b>84.9</b>	<b>89.3</b>	<b>90.6</b>	<b>88.2</b>	<b>353.1</b>	<b>80.9</b>	<b>90.8</b>	<b>92.4</b>	<b>95.1</b>	<b>359.2</b>	<b>91.3</b>	<b>95.2</b>	<b>99.5</b>	<b>103.1</b>	<b>389.0</b>
<b>COGS</b>	<b>209.8</b>	<b>54.6</b>	<b>56.2</b>	<b>57.4</b>	<b>53.3</b>	<b>221.4</b>	<b>47.7</b>	<b>56.1</b>	<b>57.4</b>	<b>59.1</b>	<b>220.4</b>	<b>56.2</b>	<b>58.8</b>	<b>61.5</b>	<b>63.9</b>	<b>240.5</b>
<b>Gross profit</b>	<b>121.7</b>	<b>30.3</b>	<b>33.2</b>	<b>33.3</b>	<b>34.9</b>	<b>131.7</b>	<b>33.2</b>	<b>34.6</b>	<b>35.0</b>	<b>36.0</b>	<b>138.8</b>	<b>35.1</b>	<b>36.4</b>	<b>37.9</b>	<b>39.1</b>	<b>148.6</b>
SG&A	73.7	16.8	16.9	16.3	19.0	69.0	15.4	16.4	17.1	17.6	66.5	17.6	17.8	17.9	18.3	71.7
<b>EBITDA</b>	<b>48.0</b>	<b>13.4</b>	<b>16.3</b>	<b>17.0</b>	<b>16.0</b>	<b>62.7</b>	<b>17.7</b>	<b>18.3</b>	<b>17.9</b>	<b>18.4</b>	<b>72.4</b>	<b>17.5</b>	<b>18.6</b>	<b>20.0</b>	<b>20.8</b>	<b>76.9</b>
D&A	23.6	7.8	8.1	9.3	10.1	35.2	10.1	10.3	10.2	10.1	40.7	10.2	10.2	10.3	10.3	41.0
<b>EBIT</b>	<b>24.4</b>	<b>5.7</b>	<b>8.2</b>	<b>7.7</b>	<b>5.9</b>	<b>27.5</b>	<b>7.6</b>	<b>8.0</b>	<b>7.7</b>	<b>8.3</b>	<b>31.7</b>	<b>7.2</b>	<b>8.4</b>	<b>9.7</b>	<b>10.5</b>	<b>35.9</b>
Interest and other expense (income)	10.5	1.0	4.0	3.9	4.3	13.2	3.6	2.2	4.1	4.1	14.0	4.1	4.1	4.1	4.1	16.4
Other expense (income)	(2.6)	(0.2)	(0.1)	(0.1)	(1.0)	(1.4)	(0.1)	(0.5)	(0.5)	(0.5)	(1.7)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)
<b>EBT</b>	<b>16.5</b>	<b>4.9</b>	<b>4.3</b>	<b>3.8</b>	<b>2.6</b>	<b>15.7</b>	<b>4.1</b>	<b>6.4</b>	<b>4.2</b>	<b>4.7</b>	<b>19.4</b>	<b>3.7</b>	<b>4.9</b>	<b>6.2</b>	<b>7.0</b>	<b>21.7</b>
Taxes	-	1.6	1.4	1.3	0.6	4.8	1.4	2.4	1.3	1.4	6.5	1.1	1.5	1.9	2.1	6.5
<b>Net income</b>	<b>16.5</b>	<b>3.3</b>	<b>2.9</b>	<b>2.5</b>	<b>2.1</b>	<b>10.8</b>	<b>2.6</b>	<b>4.0</b>	<b>2.9</b>	<b>3.3</b>	<b>12.8</b>	<b>2.6</b>	<b>3.4</b>	<b>4.3</b>	<b>4.9</b>	<b>15.2</b>
<b>EPS - diluted</b>	<b>\$0.09</b>	<b>\$0.02</b>	<b>\$0.02</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>\$0.06</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.02</b>	<b>\$0.02</b>	<b>\$0.07</b>	<b>\$0.01</b>	<b>\$0.02</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>\$0.09</b>
Dividend	<b>\$0.02</b>	-	-	-	-	<b>\$0.02</b>	-	-	-	-	<b>\$0.02</b>	-	-	-	-	<b>\$0.02</b>
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	36.7%	35.7%	37.1%	36.7%	39.6%	37.3%	41.0%	38.2%	37.9%	37.8%	38.7%	38.4%	38.2%	38.1%	38.0%	38.2%
EBITDA	14.5%	15.8%	18.3%	18.7%	18.1%	17.8%	21.9%	20.2%	19.4%	19.3%	20.1%	19.1%	19.5%	20.1%	20.2%	19.8%
Operating margin	7.4%	6.7%	9.2%	8.5%	6.7%	7.8%	9.4%	8.8%	8.4%	8.7%	8.8%	7.9%	8.9%	9.8%	10.2%	9.2%
Net margin	5.0%	3.9%	3.3%	2.8%	2.3%	3.1%	3.3%	4.4%	3.2%	3.5%	3.6%	2.8%	3.6%	4.4%	4.7%	3.9%
<b>Growth YoY</b>																
<b>YoY</b>																
Total revenue	4.2%	17.8%	5.4%	2.8%	2.0%	6.5%	(4.7%)	1.6%	2.0%	7.8%	1.7%	12.8%	4.9%	7.6%	8.3%	8.3%
Gross profit	8.8%	7.1%	5.8%	10.5%	9.3%	8.2%	9.6%	4.4%	5.3%	3.0%	5.5%	5.8%	5.1%	8.3%	8.7%	7.0%
EBITDA	9.3%	17.9%	37.6%	40.0%	26.3%	30.6%	31.9%	12.1%	5.7%	15.2%	15.4%	(1.5%)	1.7%	11.8%	13.0%	6.3%
EBIT	9.3%	17.9%	37.6%	40.0%	26.3%	30.6%	31.9%	12.1%	5.7%	15.2%	15.4%	(1.5%)	1.7%	11.8%	13.0%	6.3%
EPS	16.2%	7.5%	(24.5%)	(47.4%)	(56.2%)	(34.2%)	(20.4%)	34.6%	16.3%	60.1%	18.3%	(2.7%)	(13.7%)	47.7%	47.8%	18.4%

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>F2019</b>	<b>F2020</b>	<b>F2021E</b>	<b>F2022E</b>
Net income	\$16.5	\$10.8	\$12.8	\$15.2
D&A	23.6	32.4	39.9	41.0
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)	0.1	(3.3)	(16.4)
Inventory	(16.5)	4.2	0.1	(2.0)
Prepaid and other current assets	1.9	-	-	-
Accounts payable	18.5	(1.4)	(0.6)	11.2
Employee benefits	0.4	-	-	-
Deferred income	-	-	-	-
Income taxes (paid)/ refund received	(8.7)	-	-	-
<b>Cash from operating activities</b>	<b>22.2</b>	<b>46.3</b>	<b>49.0</b>	<b>49.1</b>
PPE	(58.4)	(63.6)	(35.9)	(38.9)
Intangible assets	(2.7)	-	-	-
Investments in debt securities	(0.6)	-	-	-
Finance income received	0.4	-	-	-
<b>Cash from investing activities</b>	<b>(61.1)</b>	<b>(63.6)</b>	<b>(35.9)</b>	<b>(38.9)</b>
Proceeds (purchase) of common stock	14.4	-	-	-
Debt	48.2	16.5	-	-
Finance expenses paid	(10.9)	-	-	-
Proceeds (repayment) finance lease liabilities	(1.4)	-	-	-
Dividend and distribution tax	(3.4)	(2.6)	-	-
<b>Cash from financing activities</b>	<b>47.0</b>	<b>13.9</b>	<b>-</b>	<b>-</b>
FX	-	-	-	-
Net change in cash	8.1	(3.4)	13.1	10.2
Cash at the beginning of period	2.2	10.3	7.0	20.0
<b>Cash at the end of period</b>	<b>10.3</b>	<b>7.0</b>	<b>20.0</b>	<b>30.2</b>
FCF	(36.2)	(17.3)	13.1	10.2
FCF / share	(\$0.20)	(\$0.10)	\$0.07	\$0.06

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)

	F2019	F2020	F2021E	F2022E
Cash	29.8	7.3	39.5	49.7
Restricted cash	4.8	4.8	4.8	4.8
Inventory	\$26.4	\$22.1	\$22.0	\$24.0
Accounts receivable	194.3	194.2	197.5	214.0
Prepaid expenses	6.2	6.2	6.2	6.2
<b>Total current assets</b>	<b>261.4</b>	<b>234.7</b>	<b>270.0</b>	<b>298.7</b>
PPE	132.9	164.1	160.1	158.0
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
<b>Total assets</b>	<b>454.7</b>	<b>459.1</b>	<b>490.5</b>	<b>517.1</b>
Finance lease obligations	1.1	1.1	1.1	1.1
Borrowings	51.2	67.8	67.8	67.8
Bank overdraft	23.9	23.9	23.9	23.9
Accounts payable	125.4	124.0	123.4	134.7
Deferred income	-	-	-	-
<b>Total current liabilities</b>	<b>222.1</b>	<b>250.1</b>	<b>249.5</b>	<b>260.7</b>
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
<b>Total liabilities</b>	<b>294.7</b>	<b>322.7</b>	<b>322.1</b>	<b>333.3</b>
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	(31.1)	(12.0)	(12.0)
Accumulated deficit	(165.2)	(157.0)	(144.2)	(129.0)
<b>Total stockholders' equity</b>	<b>165.8</b>	<b>142.3</b>	<b>174.3</b>	<b>189.6</b>
<b>Total liabilities and equity</b>	<b>460.6</b>	<b>465.0</b>	<b>496.4</b>	<b>523.0</b>
ROE	10.9%	7.7%	7.6%	8.2%
Total Debt-to-capital	38.2%	45.5%	40.6%	38.6%
Net debt-to-TTM EBITDA	1.91x	2.08x	1.36x	1.15x
Cash (debt) per share	(\$0.52)	(\$0.73)	(\$0.55)	(\$0.50)

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

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

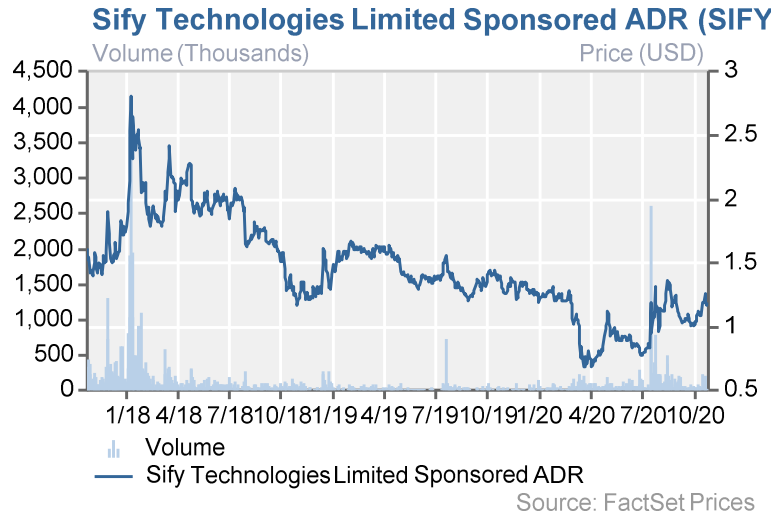
**Appendix**  
Required Disclosures

**Required Disclosures**

**Sify Technologies Limited Sponsored ADR (SIFY-\$1.09) 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	



<b>Valuation</b>	We maintain a \$4 price target. While the COVID-19 virus is curbing economic growth in the near term, it does not change the long-term digital transformation of India’s economy. We think Sify will be a primary beneficiary of this transformation. With the stock trading at 4.2x our projections on a F2022 EV/EBITDA basis, SIFY is valued at a significant discount to peers in the India Telecom and application and technology integration markets, that trade in a range of 8x-12x EV/EBITDA. Given Sify’s growth potential, we think the stock deserves to trade at the high-end of the peer group range. Thus, we base the \$4 price target on 12x our F2022 EBITDA estimate of \$77 million, less projected net debt of \$130 million, to yield \$795 million, or \$4.50 on a per share basis. Given the company’s growth potential and modest leverage of 1.25x net debt-to-TTM EBITDA, we maintain a Moderately Risky rating.		
<b>Key Risks</b>	Foreign exchange	Concentrated ownership	

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