



Sify Technologies Limited Sponsored ADR (SIFY)

1Q:F20 Revenue, EBITDA Top Our Forecasts; Lower EPS Outlook On Non-Operating Items; We Remain Bullish On Sify's Growth Potential; Maintain \$4 Target

	F2018		F2019		F2020E		F2021E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.01	\$0.02		\$0.02	\$0.02A	\$0.03	\$0.01	
Sep.	0.02	0.02		0.02		0.03	0.01	
Dec.	0.02	0.03		0.03	0.02	0.04	0.02	
Mar.	<u>0.02</u>	<u>0.03</u>		<u>0.03</u>	<u>0.02</u>	<u>0.04</u>	<u>0.02</u>	
EPS (FY)	\$0.08	\$0.09		\$0.11	\$0.08	\$0.14	\$0.07	
EPS (Cal.)	\$0.09	\$0.10	\$0.08E	\$0.13	\$0.07			
P/E (FY)					17.8x		20.3x	
P/E (Cal.)			17.8x		20.3x			
EBITDA (mil)	\$43.90	\$48.00		\$56.70	\$59.8	\$65.90	\$68.4	
EV / EBITDA					5.5x		4.8x	

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	F2012	F2013	F2014	F2015	F2016	F2017	F2018	F2019	F2020E	F2021E
Rev.(Mil.)	\$118.4	\$131.9	\$160.9	\$197.9	\$231.3	\$283.6	\$318.2	\$331.5	\$362.6	\$397.3
GAAP EPS*	(\$0.03)	\$0.04	\$0.03	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.08	\$0.07

* 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) 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 1Q:F20 increased 18% year over year to \$84.9 million, topping our \$82.6 million estimate, driven by better-than-expected growth in the company's Technology Integration Services.**
- **Although growth in Sify's Data Center and Cloud Services missed our expectations, we expect growth in these businesses to rebound, as we think the secular growth and digitization of India's economy will continue to drive increased demand for these services.**
- **EBITDA grew 18% to \$13.4 million, topping our \$13.5 million estimate. The gain was aided by a change in lease accounting. Excluding the change EBITDA would have been up 5%, below our 10% forecast. Despite the upside in EBITDA, a higher tax rate resulted in EPS of \$0.02, in line with our forecast.**
- **We slightly increase our EBITDA estimates but reduce our EPS forecasts due to rising depreciation and interest costs and higher projected tax rates.**
- **We think SIFY shares are undervalued, now trading at just 4.8x our F2021 EBITDA estimate; this represents a significant discount to the peer group that trades in a range of 9x-13x estimated 12 month forward EBITDA.**
- **Our 4 price target is based on 12x our F2021 EBITDA estimate of \$68.4 million (from \$65.9 million), less projected net debt of \$136 million. The \$4 price target implies 57x our F2021 EPS estimate of \$0.07.**

Revenue in 4Q:F19 beat our estimates... Revenue in the June quarter increased 17.8% from a year-ago to \$84.9 million in 1Q:F20, topping our \$82.6 million estimate. It was a mixed quarter, but we think it shows the benefit of the breadth of Sify's integrated information and communications technology services. On the positive side, Sify's Telecom Services delivered solid growth rising 13%, with positive contributions from both the segment's Data and Voice

NR

Price Target: \$4

Price: \$1.42

Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$250
Enterprise Value	\$328
52-Week Range (NASDAQ)	2-1
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	39,000
Shares Out (Mil)	178.514
Float Shares (Mil)	24.1
Insider Ownership	86%
Institutional Holdings	1%
Annualized Dividend	\$0.01
Dividend Yield	1.0%
FCF Per Share (F2021E)	(\$0.01)
FCF Yield (F2021E)	-0.7%
Net Cash Per Share (F2021E)	(\$0.76)
Price to Book Value	1.7x
Return on Equity (F2021E)	6.8%
Total Debt to Capital	Nil
Interest Coverage Ratio	2.3x
Short Interest %	N/A%
Short Interest Days To Cover	0.8
Russell 2000	1,568
Russell 2000 – Last 12 Months	-5.4%
SIFY – Last 12 Months	-22.2%



businesses, which grew 12% and 16% respectively. The company's Technology Integration Services rebounded sharply from 1Q:F19, rising 92%. We note this growth is off an easy comp from 1Q:F19 where revenue declined 48%, as certain projects were pushed out to 2Q:F19; but the rebound was still greater than the 40% growth we projected and the primary driver of the upside this quarter. Sify's other segments missed our growth expectations. Application Integration Services, which is primarily composed of the company's eLearning and iTest services, declined 5%. Although we forecasted a modest return to growth in 1Q:F20 this result is not too surprising, as this segment has struggled of late with revenue down 52% in F2019 as Sify lost a large government contract. We were however a bit surprised by the slowdown in Data Center Services growth and the decline in Cloud and Managed Services revenue. Sify's Data Center Services grew 29% in F2019 but revenue was up just 13% in 1Q:F20 as compared with our 25% estimate. As for the Company's Cloud and Managed Services, revenue declined by 4%. This segment was up 54% in F2019 and we were projecting results to be up sequentially, with revenue rising 50% in 1Q:F20; however management did note this business has an element of non-recurring integration services, so growth might not be as linear as we previously thought. As highlighted by their strong growth in F2019, these two segments have been Sify's primary growth drivers. Although 1Q:F20 results were below our expectations, we do not think one quarter's results are cause for concern. In our view, the demand drivers for Cloud and Data Services in India remain intact, led by the ongoing digital transformation of the economy. Moreover, the company is making significant investments to add new Data Center capacity that will further support the company's growth. As such we expect revenue growth from these businesses to rebound from the depressed levels of 1Q:F20.

... **EPS were in line with our \$0.02 estimate and an accounting change boosted EBITDA above our forecast.** Given the different margin profiles of Sify's businesses, revenue mix will affect the margins. Due to the higher-than-projected mix of lower margin Technology Integration Services in 1Q:F20, the gross margin narrowed 350 basis points to 35.7%, which was below our 37.6% estimate. However, a change in lease accounting led to lower-than-projected SG&A. As a result, EBITDA increased 18% to \$13.4 million topping our \$12.4 million estimate. Excluding the accounting changes EBITDA would have risen 5% from the prior-year period. The higher than expected EBITDA was offset by a higher than projected tax rate, as Sify has fully utilized its deferred tax assets. As such EPS of \$0.02 was in line with our forecast.

	<u>1Q:F20E</u>	<u>1Q:F20A</u>	<u>Var</u>	<u>1Q:F19A</u>	<u>1Q:F20A</u>	<u>% Change</u>
Total revenue	82.6	84.9	2.4	72.0	84.9	17.9%
Gross Profit	31.0	30.3	(0.7)	28.3	30.3	7.3%
(%)	37.6%	35.7%		39.2%	35.7%	
EBITDA	12.5	13.4	0.9	11.4	13.4	17.9%
(%)	15.2%	15.8%		15.8%	15.8%	
Diluted EPS	\$0.02	\$0.02	\$0.00	\$0.02	\$0.02	0.0%

Sources: Sidoti & Company, LLC estimates and company filings

We lower our EPS estimates. Reflecting the change in lease accounting we slightly increase our F2020 and F2021 EBITDA estimates to \$59.8 million (from \$56.7 million) and \$68.6 million (from \$65.9 million). However, we lower our respective EPS estimates to \$0.08 (from \$0.11) and \$0.07 (from \$0.14). The reduction in our EPS forecast is being driven by three factors: 1) An increase in capital spending is leading to higher depreciation expense. Reflecting the company's network and data center investments we project capital expenditures to rise to \$86 million in F2020, from \$58 million in F2019 and \$26 million in F2018. 2) Although operational cash flow will cover a portion of the company's spending, we expect Sify to add more debt and as a result we expect higher interest expense. 3) Finally, we increased our tax rate assumption from 10% to 30%, now that the company's tax assets have been fully utilized.

We maintain a \$4 price target. Trading at 4.8x our projections on a F2021EV/EBITDA basis, SIFY stock 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. Thus, the \$4 price target is based on 12x our F2021 EBITDA forecast of \$68.4 million (from \$65.9 million), which then subtracts projected net debt of \$136 million, to yield \$685 million, or \$3.85 on a per share basis. This \$4 price target implies 57x our F2021 EPS estimate of \$0.07.

Key Risks
Foreign exchange
Concentrated ownership

SIFY TECHNOLOGIES LIMITED SPONSORED ADR

Table 1: Sify Technologies Ltd., Income Statement

(Dollars in millions except where noted)

	F2018	Jun	Sep	Dec	Mar	F2019	JunA	SepE	DecE	MarE	F2020E	JunE	SepE	DecE	MarE	F2021E
Total revenue	318.2	72.0	84.8	88.2	86.5	331.5	84.9	86.6	93.3	97.8	362.6	92.8	94.8	102.4	107.2	397.3
COGS	206.4	43.8	53.4	58.1	54.6	209.8	54.6	54.5	59.0	62.0	230.2	58.6	59.4	64.5	67.6	250.1
Gross profit	111.8	28.3	31.4	30.1	32.0	121.7	30.3	32.0	34.3	35.8	132.4	34.3	35.4	38.0	39.6	147.2
SG&A	67.9	16.9	19.5	18.0	19.3	73.7	16.8	17.9	18.3	19.6	72.6	19.0	19.1	19.6	21.0	78.8
EBITDA	43.9	11.4	11.9	12.1	12.6	48.0	13.4	14.1	16.0	16.2	59.8	15.2	16.2	18.4	18.6	68.4
D&A	27.0	6.0	5.9	5.7	6.1	23.6	7.8	8.1	8.5	8.8	33.2	8.9	8.9	9.0	9.0	35.9
EBIT	16.9	5.4	6.0	6.5	6.6	24.4	5.7	6.0	7.5	7.4	26.6	6.3	7.3	9.4	9.6	32.6
Interest and other expense (income)	5.6	2.1	2.7	2.7	3.1	10.5	1.0	2.6	2.6	2.6	8.8	4.3	4.3	4.3	4.3	17.1
Other expense (income)	(2.9)	0.3	(0.6)	(1.0)	(1.2)	(2.6)	(0.2)	(0.5)	(0.5)	(0.5)	(1.9)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)
EBT	14.2	3.1	3.9	4.8	4.7	16.5	4.9	4.0	5.4	5.3	19.7	2.6	3.5	5.7	5.8	17.6
Taxes	-	-	-	-	-	-	1.6	1.2	1.6	1.6	6.0	0.8	1.1	1.7	1.7	5.3
Net income	14.2	3.1	3.9	4.8	4.7	16.5	3.3	2.8	3.8	3.7	13.6	1.8	2.5	4.0	4.1	12.3
EPS - diluted	\$0.08	\$0.02	\$0.02	\$0.03	\$0.03	\$0.09	\$0.02	\$0.02	\$0.02	\$0.02	\$0.08	\$0.01	\$0.01	\$0.02	\$0.02	\$0.07
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	35.1%	39.2%	37.0%	34.1%	36.9%	36.7%	35.7%	37.0%	36.7%	36.6%	36.5%	36.9%	37.3%	37.1%	36.9%	37.0%
EBITDA	13.8%	15.8%	14.0%	13.7%	14.6%	14.5%	15.8%	16.3%	17.1%	16.6%	16.5%	16.4%	17.1%	18.0%	17.3%	17.2%
Operating margin	5.3%	7.6%	7.0%	7.3%	7.6%	7.4%	6.7%	7.0%	8.0%	7.5%	7.3%	6.8%	7.7%	9.2%	8.9%	8.2%
Net margin	4.5%	4.3%	4.6%	5.4%	5.4%	5.0%	3.9%	3.2%	4.1%	3.8%	3.8%	1.9%	2.6%	3.9%	3.8%	3.1%
Growth YoY																
YoY																
Total revenue	12.2%	2.8%	13.8%	9.6%	(7.2%)	4.2%	17.8%	2.1%	5.8%	13.1%	9.4%	9.3%	9.5%	9.8%	9.6%	9.6%
Gross profit	11.0%	5.1%	13.8%	11.3%	5.5%	8.8%	7.1%	2.1%	13.8%	12.0%	8.8%	13.2%	10.4%	10.8%	10.7%	11.2%
EBITDA	11.1%	5.9%	7.7%	12.3%	11.4%	9.3%	17.9%	18.9%	31.9%	28.3%	24.4%	13.3%	14.9%	15.0%	14.6%	14.5%
EBIT	11.1%	5.9%	7.7%	12.3%	11.4%	9.3%	17.9%	18.9%	31.9%	28.3%	24.4%	13.3%	14.9%	15.0%	14.6%	14.5%
EPS	46.1%	16.0%	24.7%	9.5%	17.2%	16.2%	7.5%	(28.6%)	(20.8%)	(20.8%)	(17.3%)	(45.7%)	(11.2%)	4.8%	9.4%	(9.5%)

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)

	F2018	F2019	F2020E	F2021E
Net income	\$14.2	\$16.5	\$13.6	\$12.3
D&A	27.0	23.6	33.1	35.9
Provision for doubtful accounts	5.7	8.3	-	-
Stock compensation	0.1	0.1	0.2	0.2
Net finance (income) / expense	5.7	10.5	-	-
Unrealized (gain) / loss on account of exchange differences	(0.0)	1.0	-	-
Amortization of leasehold prepayments	0.3	0.3	-	-
Accounts receivable	(34.2)	(33.6)	(5.1)	(19.1)
Inventory	8.2	(16.5)	3.4	(2.0)
Prepaid and other current assets	(8.0)	1.9	-	-
Accounts payable	9.3	18.5	3.5	11.1
Employee benefits	0.4	0.4	-	-
Deferred income	4.6	-	-	-
Income taxes (paid)/ refund received	-	(8.7)	-	-
Cash from operating activities	33.3	22.2	48.6	38.4
PPE	(25.7)	(58.4)	(86.3)	(39.7)
Intangible assets	(2.5)	(2.7)	-	-
Investments in debt securities	(1.1)	(0.6)	-	-
Finance income received	1.6	0.4	-	-
Cash from investing activities	(27.6)	(61.1)	(86.3)	(39.7)
Proceeds (purchase) of common stock	0.2	14.4	-	-
Debt	0.7	48.2	38.5	7.7
Finance expenses paid	(7.6)	(10.9)	-	-
Proceeds (repayment) finance lease liabilities	(6.2)	(1.4)	-	-
Dividend and distribution tax	(3.2)	(3.4)	(2.6)	(2.6)
Cash from financing activities	(16.8)	47.0	35.8	5.1
FX	-	-	-	-
Net change in cash	(11.1)	8.1	(1.8)	3.7
Cash at the beginning of period	13.3	2.2	10.3	8.5
Cash at the end of period	2.2	10.3	8.5	12.3
FCF	7.7	(36.2)	(37.6)	(1.3)
FCF / share	\$0.04	(\$0.20)	(\$0.21)	(\$0.01)

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)

	F2018	F2019	F2020E	F2021E
Cash	30.6	29.8	28.0	31.7
Restricted cash	4.6	4.8	4.8	4.8
Inventory	\$9.9	\$26.4	\$23.0	\$25.0
Accounts receivable	164.8	194.3	199.4	218.5
Prepaid expenses	6.4	6.2	6.2	6.2
Total current assets	216.4	261.4	261.4	286.2
PPE	111.0	132.9	186.0	189.9
Intangible assets	9.0	8.9	8.9	8.9
Lease payments	20.7	20.3	20.3	20.3
Other assets	17.1	28.2	28.2	28.2
Other investments	2.2	3.0	3.0	3.0
Total assets	376.3	454.7	507.8	536.5
Finance lease obligations	1.4	1.1	1.1	1.1
Borrowings	22.6	51.2	89.7	97.4
Bank overdraft	32.6	23.9	23.9	23.9
Accounts payable	113.2	125.4	128.9	140.0
Deferred income	18.0	-	-	-
Total current liabilities	187.9	222.1	264.1	282.9
Finance lease obligations	1.5	0.4	0.4	0.4
Long-term debt	31.0	51.2	51.2	51.2
Employee benefits	2.3	2.6	2.6	2.6
Other liabilities	15.1	18.4	18.4	18.4
Total liabilities	237.8	294.7	336.7	355.6
Share capital	23.4	27.8	27.9	28.1
Share premium	287.6	297.7	297.7	297.7
Share based payment reserve	4.8	4.7	4.7	4.7
Other components of equity	0.5	0.8	0.8	0.8
Accumulated deficit	(177.7)	(165.2)	(154.2)	(144.5)
Total stockholders' equity	138.5	165.8	176.9	186.8
Total liabilities and equity	376.3	460.6	513.7	542.4
ROE	10.9%	10.9%	8.1%	6.8%
Total Debt-to-capital	27.9%	38.2%	44.3%	44.3%
Net debt-to-TTM EBITDA	1.16x	1.91x	2.20x	1.98x
Cash (debt) per share	(\$0.29)	(\$0.52)	(\$0.74)	(\$0.76)

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-\$1.42) 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	



Key Risks	Foreign exchange	Concentrated ownership	
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Valuation:

We maintain a \$4 price target. Trading at 4.8x our projections on a F2021EV/EBITDA basis, SIFY stock 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. Thus, the \$4 price target is based on 12x our F2021 EBITDA forecast of \$68.4 million (from \$65.9 million), which then subtracts projected net debt of \$136 million, to yield \$685 million, or \$3.85 on a per share basis. This \$4 price target implies 57x our F2021 EPS estimate of \$0.07.

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Sidoti Company Sponsored Research Rating System The Sidoti & Company, LLC *Company Sponsored Research* rating

APPENDIX CONTINUED

system consists of “Moderately Risky” (M) and “Highly Risky” (H) ratings. “Moderately Risky” suggests companies, that while still subject to relatively high price volatility, are characterized by more stable and predictable cash flow, a more established operating history, and an operating environment that is somewhat less competitive with a potential for loss of principal. “Highly Risky” suggests high risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal. As of 07/24/19, Company Sponsored Research provides research on 16 companies, of which 12 (75%) are rated Moderately Risky and 4 (25%) are rated Highly Risky. *Earnings* targets and opinions concerning the composition of market sectors included in this report reflect analyst judgments as of this date and are subject to change without notice. A risk to our *earnings* targets is that the analyst’s estimates or forecasts may not be met. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from such forward-looking statements. Factors that may cause such differences include, but are not limited to, those discussed in the “Risk Factors” section in the issuer’s SEC filings available in electronic format through SEC Edgar filings at www.sec.gov.

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APPENDIX CONTINUED

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