



Sify Technologies Limited Sponsored ADR (SIFY)

Estimate 5% Revenue, 24% EBITDA Growth In 4Q:F20; Although Coronavirus Will Curb Near-Term Growth, Sify Is Well Positioned To Benefit From India's Digital Transformation; 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		0.01		0.02	
Dec.	0.03	0.01A		0.02		0.02	
Mar.	<u>0.03</u>	<u>0.01</u>		<u>0.02</u>		<u>0.02</u>	
EPS (FY)	\$0.09	\$0.06		\$0.05		\$0.08	
EPS (Cal.)	\$0.08	\$0.05		\$0.07			
P/E (FY)		17.2x		20.6x		12.9x	
P/E (Cal.)		20.6x		14.7x			
EBITDA (mil)	\$48.00	\$62.40		\$63.80		\$72.00	
EV / EBITDA		5.0x		4.8x		4.3x	

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	\$355.6	\$362.5	\$393.2
GAAP EPS*	\$0.04	\$0.03	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.06	\$0.05	\$0.08

* 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.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
May 5th	May 5th	8:30 am	844-369-8770	N/A	Rev: \$90.8 million EPS: \$0.01

- **We model revenue climbed 5%, year over year to \$90.8 million in 4Q:F20 and forecast EBITDA rose 24% to \$15.7 million, but that EPS declined to \$0.01 from \$0.03 in 4Q:F19, due to higher depreciation, interest and tax expenses.**
- **We do not expect the Coronavirus to have much impact on 4Q:F20 results. However, the Indian economy was slowing beforehand, and we expect longer sales cycles, delayed buying decisions to weigh on Sify's growth.**
- **While the virus will impact economic growth near-term, it does not change the long-term path India is on to digitally transform its economy. We think Sify is well positioned to benefit from this digital transformation, which will drive demand for the company's connectivity and data center services.**
- **SIFY stock now trades at just 4.3x our new F2022 EBITDA estimate; this is less than half that of the peer group range of 9x-13x estimated 12-month forward EBITDA.**
- **The unchanged \$4 price target is based on 12x our F2022 EBITDA estimate of \$72 million, less projected net debt of \$110 million. The \$4 price target implies 50x our new F2022 EPS estimate of \$0.08.**
- **Given Sify's growth potential and the company's modest leverage (net debt-to-TTM EBITDA of 2.1x) we maintain our Moderate risk rating.**

We project revenue grew 5% in 4Q:F20. While we do not think 4Q:F20 was impacted that much by the Coronavirus, the Indian economy was already slowing prior to the virus. As a result, Sify has been seeing sales cycles begin to extend as customers in large end markets,

NR

Price Target: \$4

Price: \$1.03

Risk Rating: M

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Key Statistics

Analysts Covering	0
Market Cap (Mil)	\$180
Enterprise Value	\$309
52-Week Range (NASDAQ)	2-1
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	67,000
Shares Out (Mil)	178.514
Float Shares (Mil)	24.1
Insider Ownership	86%
Institutional Holdings	1%
Annualized Dividend	\$0.01
Dividend Yield	1.4%
FCF Per Share (F2022E)	\$0.02
FCF Yield (F2022E)	1.9%
Net Cash Per Share (F2022E)	(\$0.60)
Price to Book Value	1.2x
Return on Equity (F2022E)	8.3%
Total Debt to Capital	48%
Interest Coverage Ratio	1.9x
Short Interest %	N/A%
Short Interest Days To Cover	0.1
Russell 2000	1,260
Russell 2000 – Last 12 Months	-20.0%
SIFY – Last 12 Months	-27.0%



such as banking and manufacturing, started delaying buying decisions. Consequently, although we expect growth to slow somewhat, we still project revenue grew 5% to \$90.8 million in 4Q:F20. The company's Telecom-centric services should not be much impacted by the longer sales cycles and we project revenue rose 8% to \$49.4 million. Sify's data center-centric services, that cater to the rapid digitization of India's economy and the growing demand for cloud and data center services, will be impacted to a greater extent, particularly project driven segments such as Technology Integration Services. As a whole, we project revenue from Sify's data center-centric IT services [Data Center Services, Cloud and Managed Services, Applications Integration Services (AIS) and Technology Integration Services (TIS)] grew 1.4% to \$41.3 million.

We project EBITDA grew 24% in 4Q:F20. Given the different margin profiles of Sify's businesses, revenue mix has a significant effect on margins. Given the relative mix of Telecom services in fiscal 2020's final quarter, we project the gross margin narrowed 40 basis points to 36.5%. Management is doing a good job managing spending, given the slowdown in activity, and we project the company will deliver some operating leverage, despite the decline in gross margin. We project EBITDA increased 24% to \$15.7 million. Adjusting for a change in lease accounting that reduced SG&A by about \$2 million, EBITDA was up 9% on a comparable basis. Although EBITDA is projected to grow, 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) will lead to a projected 52% decline in net income and EPS of \$0.01 in 4Q:F20, from \$0.03 in 4Q:F19.

Exhibit 1: Sify Technologies Preview			
	4Q:F20E	4Q:F19A	% Change
Total revenue	90.8	86.5	5.0%
Gross Profit	33.1	32.0	3.4%
(%)	36.5%	37.0%	
EBITDA	15.7	12.6	24.2%
(%)	17.3%	14.6%	
Diluted EPS	\$0.01	\$0.03	-52.3%

Sources: Sidoti & Company, LLC estimates and company filings

Valuation	We maintain a \$4 price target. While the COVID-19 virus will have a negative impact on growth in the near-term, it does not change the long term digital transformation of India's economy. This transformation 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. With the stock trading at 4.3x our projections on a F2022 EV/EBITDA basis, SIFY is valued at a very significant 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 \$72 million, less projected net debt of \$110 million, to yield \$750 million, or \$4.28 on a per share basis. This \$4 price target implies 50x our F2022 EPS estimate of \$0.08. Given the company's growth potential and modest leverage of 2.1x net debt-to-TTM EBITDA, we maintain our Moderate risk rating.	
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	90.8	355.6	87.7	89.6	92.8	92.5	362.5	393.2
COGS	43.8	53.4	58.1	54.6	209.8	54.6	56.2	57.4	57.6	225.8	55.3	56.4	58.3	58.3	228.3	245.9
Gross profit	28.3	31.4	30.1	32.0	121.7	30.3	33.2	33.3	33.1	129.9	32.4	33.1	34.5	34.3	134.3	147.3
SG&A	16.9	19.5	18.0	19.3	73.7	16.8	16.9	16.3	17.4	67.4	17.5	17.6	17.6	17.7	70.5	75.3
EBITDA	11.4	11.9	12.1	12.6	48.0	13.4	16.3	17.0	15.7	62.4	14.8	15.5	16.8	16.6	63.8	72.0
D&A	6.0	5.9	5.7	6.1	23.6	7.8	8.1	9.3	9.0	34.2	9.0	9.0	9.0	9.0	36.2	36.4
EBIT	5.4	6.0	6.5	6.6	24.4	5.7	8.2	7.7	6.7	28.2	5.8	6.5	7.8	7.6	27.6	35.6
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	4.2	4.2	4.2	4.2	16.9	16.9
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	3.2	16.3	2.1	2.8	4.1	3.9	12.9	20.9
Taxes	-	-	-	-	-	1.6	1.4	1.3	1.0	5.2	0.6	0.8	1.2	1.2	3.9	6.3
Net income	3.1	3.9	4.8	4.7	16.5	3.3	2.9	2.5	2.2	11.0	1.5	2.0	2.9	2.7	9.0	14.6
EPS - diluted	\$0.02	\$0.02	\$0.03	\$0.03	\$0.09	\$0.02	\$0.02	\$0.01	\$0.01	\$0.06	\$0.01	\$0.01	\$0.02	\$0.02	\$0.05	\$0.08
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%	36.5%	36.5%	36.9%	37.0%	37.1%	37.1%	37.0%	37.5%
EBITDA	15.8%	14.0%	13.7%	14.6%	14.5%	15.8%	18.3%	18.7%	17.3%	17.6%	16.9%	17.3%	18.1%	18.0%	17.6%	18.3%
Operating margin	7.6%	7.0%	7.3%	7.6%	7.4%	6.7%	9.2%	8.5%	7.3%	7.9%	6.6%	7.2%	8.4%	8.2%	7.6%	9.1%
Net margin	4.3%	4.6%	5.4%	5.4%	5.0%	3.9%	3.3%	2.8%	2.5%	3.1%	1.7%	2.2%	3.1%	3.0%	2.5%	3.7%
Growth YoY																
YoY																
Total revenue	2.8%	13.8%	9.6%	(7.2%)	4.2%	17.8%	5.4%	2.8%	4.9%	7.3%	3.3%	0.2%	2.3%	2.0%	1.9%	8.5%
Gross profit	5.1%	13.8%	11.3%	5.5%	8.8%	7.1%	5.8%	10.5%	3.7%	6.7%	6.9%	(0.1%)	3.6%	3.5%	3.4%	9.7%
EBITDA	5.9%	7.7%	12.3%	11.4%	9.3%	17.9%	37.6%	40.0%	24.2%	30.0%	10.2%	(5.0%)	(0.8%)	5.8%	2.1%	13.0%
EBIT	5.9%	7.7%	12.3%	11.4%	9.3%	17.9%	37.6%	40.0%	24.2%	30.0%	10.2%	(5.0%)	(0.8%)	5.8%	2.1%	13.0%
EPS	16.0%	24.7%	9.5%	17.2%	16.2%	7.5%	(24.5%)	(47.4%)	(52.3%)	(33.1%)	(55.8%)	(33.5%)	14.4%	21.6%	(18.1%)	62.1%

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	\$11.1	\$9.0	\$14.6
D&A	23.6	32.4	36.2	36.4
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)	(1.4)	(3.7)	(16.9)
Inventory	(16.5)	3.8	(0.2)	(1.8)
Prepaid and other current assets	1.9	-	-	-
Accounts payable	18.5	1.1	1.4	9.9
Employee benefits	0.4	-	-	-
Deferred income	-	-	-	-
Income taxes (paid)/ refund received	(8.7)	-	-	-
Cash from operating activities	22.2	47.1	42.8	42.4
PPE	(58.4)	(64.0)	(36.3)	(39.3)
Intangible assets	(2.7)	-	-	-
Investments in debt securities	(0.6)	-	-	-
Finance income received	0.4	-	-	-
Cash from investing activities	(61.1)	(64.0)	(36.3)	(39.3)
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)	(2.6)	(2.6)
Cash from financing activities	47.0	13.9	(2.6)	(2.6)
FX	-	-	-	-
Net change in cash	8.1	(3.0)	3.9	0.5
Cash at the beginning of period	2.2	10.3	7.3	11.2
Cash at the end of period	10.3	7.3	11.2	11.7
FCF	(36.2)	(16.9)	6.5	3.1
FCF / share	(\$0.20)	(\$0.09)	\$0.04	\$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	7.7	30.7	31.2
Restricted cash	4.8	4.8	4.8	4.8
Inventory	\$26.4	\$22.6	\$22.8	\$24.6
Accounts receivable	194.3	195.7	199.4	216.3
Prepaid expenses	6.2	6.2	6.2	6.2
Total current assets	261.4	236.9	263.9	283.0
PPE	132.9	164.5	164.6	167.5
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	461.8	488.9	510.9
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	126.4	127.8	137.7
Deferred income	-	-	-	-
Total current liabilities	222.1	252.5	253.9	263.8
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	325.1	326.5	336.4
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)	(156.7)	(150.3)	(138.2)
Total stockholders' equity	165.8	142.6	168.2	180.4
Total liabilities and equity	460.6	467.7	494.7	516.8
ROE	10.9%	7.8%	5.5%	8.3%
Total Debt-to-capital	38.2%	45.5%	41.4%	39.7%
Net debt-to-TTM EBITDA	1.91x	2.08x	1.68x	1.48x
Cash (debt) per share	(\$0.52)	(\$0.73)	(\$0.60)	(\$0.60)

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-\$1.03) 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	We maintain a \$4 price target. While the COVID-19 virus will have a negative impact on growth in the near-term, it does not change the long term digital transformation of India's economy. This transformation 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. With the stock trading at 4.3x our projections on a F2022 EV/EBITDA basis, SIFY is valued at a very significant 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 \$72 million, less projected net debt of \$110 million, to yield \$750 million, or \$4.28 on a per share basis. This \$4 price target implies 50x our F2022 EPS estimate of \$0.08. Given the company's growth potential and modest leverage of 2.1x net debt-to-TTM EBITDA, we maintain our Moderate risk rating.		
Key Risks	Foreign exchange	Concentrated ownership	

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