



Sify Technologies Limited Sponsored ADR (SIFY)

Raise Target To \$6 (From \$5); 4Q:F21 Revenue And EBITDA Beat Expectations As Accelerating Digital Transformation, Cloud Adoption Is Driving Strong Demand For Sify's ICT Services

	F2020		F2021		F2022E		F2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.02	\$0.01A		\$0.02	\$0.01	\$0.02	\$0.03	
Sep.	0.02	0.02A		0.02		0.02	0.03	
Dec.	0.01	0.02A		0.02	0.03	0.03	0.04	
Mar.	0.01	0.02	0.03A	0.03		0.04		
EPS (FY)	\$0.06	\$0.08	\$0.09	\$0.10	\$0.09	\$0.12	\$0.13	
EPS (Cal.)	\$0.07	\$0.09E		\$0.11	\$0.13			
P/E (FY)					32.7x		22.6x	
P/E (Cal.)		32.7x			22.6x			
EBITDA (mil)	\$62.70	\$75.30	\$78.20A	\$82.50	\$85.40	\$91.50	\$98.80	
EV / EBITDA					7.0x		6.1x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. F2020-F2023E 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	F2014	F2015	F2016	F2017	F2018	F2019	F2020	F2021	F2022E	F2023E
Rev.(Mil.)	\$160.9	\$197.9	\$231.3	\$283.6	\$318.2	\$331.5	\$353.1	\$374.1	\$413.5	\$460.9
GAAP EPS	\$0.03	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.06	\$0.09	\$0.09	\$0.13

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.

- Sify ended F2021 on a strong note with revenue rising 19.6% to \$105.5 million, topping our \$98.1 million estimate.
- Management continued its track record of driving operating leverage as continued spending discipline led to an EBITDA gain of 40% to \$22.4 million, which also beat our \$19.4 million estimate.
- As evident in Sify's strong growth this quarter, the pandemic is accelerating the digital transformation and cloud adoption of businesses in India.
- Although the second wave of COVID now impacting India could create some challenges for Sify, the long-term outlook for growth remains strong and much like F2021, we would expect growth to quickly reaccelerate at the economy reopens.
- Given the strong demand trends and the company's solid EBITDA growth, management intends to continue adding data center capacity in F2022 and increase spending on headcount and tools to enhance the company's digital capabilities.
- Balancing the added spending and our positive outlook for growth, we raise our F2022 and F2023 revenue estimates to \$413.5 million (from \$404.7 million) and \$460.9 million (from \$441.7 million), respectively. We also increase our EBITDA estimates to \$85.4 million (from \$82.5 million) and \$98.8 million (from \$91.5 million).
- SIFY stock trades at just 6x our new F2023 EBITDA estimate, a significant discount to the peer group range of 8x-12x estimated 12-month forward EBITDA.
- We raise our price target to \$6 (from \$5), which is based on 12x our new F2023 EBITDA estimate of \$98.8 million, less projected net debt of \$130 million. The \$6 price target also implies 46x our new F2023 EPS estimate of \$0.13.
- Given the company's growth potential and modest leverage of 1.0x net debt-to-TTM EBITDA, we maintain our Moderately Risky rating.

NR

Price Target: \$6
Price: \$2.94
Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$530
Enterprise Value	\$602
52-Week Range (NASDAQ)	6-1
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	1,794,00
Shares Out (Mil)	179.223
Float Shares (Mil)	24.1
Insider Ownership	86%
Institutional Holdings	1%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (F2023E)	\$0.00
FCF Yield (F2023E)	0.0%
Net Cash Per Share (F2023E)	(\$0.72)
Price to Book Value	3.2x
Return on Equity (F2023E)	7.4%
Total Debt to Capital	41%
Interest Coverage Ratio	2.7x
Short Interest %	N/A%
Short Interest Days To Cover	4.0
Russell 2000	2,267
Russell 2000 – Last 12 Months	77.5%
SIFY – Last 12 Months	197.9%



Demand for Sify's Data Center Centric services remains strong as 3Q:F21 revenue topped our forecast. The pandemic is still pressuring some areas of Sify's business, mainly its Network and Application integration services, but growth in the company's Data Center Centric services has accelerated throughout F2021 as the pandemic is accelerating the digital transformation and cloud adoption of businesses in India. As a result, revenue growth accelerated in 3Q:F21, with sales rising 19.6% to \$105.5 million, exceeding our \$98.1 million estimate. The growing demand for Sify's services was evident this quarter when revenue from Data Center Centric IT services increased 47%. By business line, Sify's Data Center, Cloud and Technology Integration Services grew 49% and 15% respectively, on par with our estimates. However, growth in Sify's Technology Integration Services far exceeded our forecast with revenue rising 95%, as compared with the 17% growth we projected. This project dependent portion of Sify's business was one of the hardest hit during the pandemic as spending was delayed and sales cycles extended. That said, the strong rebound in 4Q:F21 shows the pandemic created a timing issue, demand has not slowed, and once businesses are able to, they are moving forward with their digital and cloud investments. The two areas of Sify's business that continue to be pressured by the pandemic are the Network Services and Applications Integration Services segments, which declined 3.5% and 4% respectively; both were in line with our expectations.

EBITDA in 4Q:F21 also came in above our expectations. The gross margin widened 90 basis points to 41.5% as compared with our 38.2% forecast. This is a strong result considering the relative growth of the typically lower margin Technology Integration Services in the quarter. Management has a good track record of driving profitable growth and delivering solid leverage on the gains. This quarter was no different where EBITDA increased 40% to \$22.4 million, handily topping our \$19.4 million estimate. Net income increased 171%, aided by a reduction in interest expense. As a result, EPS increased to \$0.03 from \$0.01 a year ago, topping our \$0.02 estimate.

Exhibit 1: Sify Technologies Preview						
	<u>4Q:F21E</u>	<u>4Q:F21A</u>	<u>Var</u>	<u>4Q:F20A</u>	<u>4Q:F21A</u>	<u>% Change</u>
Total revenue	\$98.1	105.5	7.4	\$88.2	105.5	19.6%
Gross Profit	37.5	43.8	6.3	34.9	43.8	25.5%
(%)	38.2%	41.5%		39.6%	41.5%	
EBITDA	19.4	22.4	3.0	16.0	22.4	40.0%
(%)	19.8%	21.2%		18.1%	21.2%	
Diluted EPS	\$0.02	\$0.03	\$0.01	\$0.01	\$0.03	170.0%

Sources: Sidoti & Company, LLC estimates and company filings

Sify's business has been resilient through the pandemic. India is now facing a second wave of COVID infections and lockdown measures. While this could slow Sify's growth for a quarter or two, we think the long-term outlook for growth remains as strong as ever. We think F2021 is instructive: Here revenue declined 5% in 1Q:F21 but then grew 2%, 7% and 20% in the successive quarters. We think any near-term slowdown caused by the second wave of Covid will be met with a similar resurgence in demand as the economy reopens. India is in the early innings of a digital transformation and Sify's data center cloud and network services are at the center of enabling this transformation, so while COVID can create some headwinds for Sify, ultimately, it is accelerating the secular technology trends that are driving demand for the company's services.

Valuation	We raise our price target to \$6 (from \$5) on SIFY shares. While the pandemic 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 likely be a primary beneficiary of this transformation. With the stock trading at 6.1x our projections on a F2023 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. Our \$6 price target is based on 12x our F2023 EBITDA estimate of \$98.8 million (up from \$91.5 million), less projected net debt of \$130 million, to yield \$1,055 million, or \$5.89 on a per share basis. Given the company's growth potential and modest leverage, we maintain a Moderately Risky 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)

	F2020	Jun	Sep	Dec	Mar	F2021	JunE	SepE	DecE	MarE	F2022E	JunE	SepE	DecE	MarE	F2023E
Total revenue	353.1	80.9	90.8	96.9	105.5	374.1	93.5	97.7	104.5	117.8	413.5	107.4	111.1	114.6	127.9	460.9
COGS	221.4	47.7	56.1	60.6	61.7	226.1	55.2	58.0	62.4	72.3	247.9	63.9	66.6	68.6	78.4	277.5
Gross profit	131.7	33.2	34.6	36.4	43.8	148.0	38.3	39.8	42.1	45.4	165.6	43.5	44.5	46.0	49.5	183.4
SG&A	69.0	15.4	16.4	16.5	21.4	69.8	19.5	19.5	19.9	21.2	80.1	20.4	21.4	20.4	22.4	84.6
EBITDA	62.7	17.7	18.3	19.9	22.4	78.2	18.7	20.2	22.2	24.2	85.4	23.1	23.1	25.6	27.1	98.8
D&A	35.2	10.1	10.3	10.9	12.3	43.6	11.8	11.9	12.0	12.2	48.0	12.5	12.7	12.8	13.0	51.0
EBIT	27.5	7.6	8.0	8.9	10.0	34.6	6.9	8.3	10.2	12.0	37.4	10.6	10.4	12.7	14.1	47.8
Interest and other expense (income)	13.2	3.6	2.2	3.3	3.0	12.2	4.0	4.0	4.0	4.0	16.0	4.0	4.0	4.0	4.0	16.0
Other expense (income)	(1.4)	(0.1)	(0.5)	(0.6)	(1.0)	(2.2)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)
EBT	15.7	4.1	6.4	6.2	8.0	24.6	3.4	4.9	6.7	8.6	23.6	7.1	7.0	9.3	10.6	34.0
Taxes	4.8	1.4	2.4	2.3	2.4	8.5	1.0	1.5	2.0	2.6	7.1	2.1	2.1	2.8	3.2	10.2
Net income	10.8	2.6	4.0	3.9	5.6	16.1	2.4	3.4	4.7	6.0	16.5	5.0	4.9	6.5	7.4	23.8
EPS - diluted	\$0.06	\$0.01	\$0.02	\$0.02	\$0.03	\$0.09	\$0.01	\$0.02	\$0.03	\$0.03	\$0.09	\$0.03	\$0.03	\$0.04	\$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
Margins																
Gross margin	37.3%	41.0%	38.2%	37.5%	41.5%	39.6%	40.9%	40.7%	40.3%	38.6%	40.0%	40.5%	40.1%	40.1%	38.7%	39.8%
EBITDA	17.8%	21.9%	20.2%	20.5%	21.2%	20.9%	20.0%	20.7%	21.3%	20.6%	20.7%	21.5%	20.8%	22.3%	21.2%	21.4%
Operating margin	7.8%	9.4%	8.8%	9.2%	9.5%	9.3%	7.4%	8.5%	9.7%	10.2%	9.0%	9.9%	9.4%	11.1%	11.0%	10.4%
Net margin	3.1%	3.3%	4.4%	4.0%	5.3%	4.3%	2.6%	3.5%	4.5%	5.1%	4.0%	4.6%	4.4%	5.7%	5.8%	5.2%
Growth YoY																
YoY																
Total revenue	6.5%	(4.7%)	1.6%	7.0%	19.6%	6.0%	15.5%	7.7%	7.8%	11.6%	10.5%	14.9%	13.6%	9.6%	8.6%	11.5%
Gross profit	8.2%	9.6%	4.4%	9.4%	25.4%	12.4%	15.4%	14.8%	15.6%	3.7%	11.9%	13.6%	11.9%	9.3%	8.9%	10.8%
EBITDA	30.6%	31.9%	12.1%	17.0%	40.0%	24.8%	5.6%	10.6%	11.8%	8.4%	9.2%	23.1%	14.0%	15.2%	11.9%	15.7%
EBIT	30.6%	31.9%	12.1%	17.0%	40.0%	24.8%	5.6%	10.6%	11.8%	8.4%	9.2%	23.1%	14.0%	15.2%	11.9%	15.7%
EPS	(34.2%)	(20.4%)	34.6%	53.7%	171.1%	48.1%	(9.0%)	(14.1%)	21.2%	7.5%	2.8%	107.1%	43.5%	38.3%	23.7%	44.1%

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)

	F2020	F2021	F2022E	F2023E
Net income	\$10.9	\$16.1	\$16.5	\$23.8
D&A	35.2	41.1	48.0	51.0
Provision for doubtful accounts	7.4	-	-	-
Stock compensation	0.7	0.2	0.2	0.2
Net finance (income) / expense	13.2	-	-	-
Unrealized (gain) / loss on account of exchange differences	0.1	-	-	-
Amortization of leasehold prepayments	-	-	-	-
Accounts receivable	(4.5)	(12.6)	(29.1)	(26.1)
Inventory	6.4	(0.3)	(2.0)	(2.7)
Prepaid and other current assets	(6.0)	-	-	-
Accounts payable	3.6	(3.9)	10.6	17.4
Employee benefits	0.3	-	-	-
Deferred income	-	-	-	-
Income taxes (paid)/ refund received	-	-	-	-
Cash from operating activities	76.9	40.5	44.2	63.7
PPE	(62.5)	(41.8)	(57.9)	(64.5)
Intangible assets	-	-	-	-
Investments in debt securities	-	-	-	-
Finance income received	-	-	-	-
Cash from investing activities	(64.0)	(41.8)	(57.9)	(64.5)
Proceeds (purchase) of common stock	0.1	0.0	-	-
Debt	22.9	-	-	-
Finance expenses paid	(16.1)	(7.6)	-	-
Proceeds (repayment) finance lease liabilities	(3.4)	(1.3)	-	-
Dividend and distribution tax	(3.4)	-	-	-
Cash from financing activities	0.1	(8.9)	-	-
FX	-	-	-	-
Net change in cash	13.0	(10.2)	(13.7)	(0.9)
Cash at the beginning of period	10.3	23.3	13.1	(0.6)
Cash at the end of period	23.3	13.1	(0.6)	(1.4)
FCF	14.4	(1.3)	(13.7)	(0.9)
FCF / share	\$0.08	(\$0.01)	(\$0.08)	(\$0.00)

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)

	F2020	F2021	F2022E	F2023E
Cash	35.7	25.5	11.8	10.9
Restricted cash	5.1	5.1	5.1	5.1
Inventory	\$20.0	\$20.4	\$22.3	\$25.0
Accounts receivable	185.7	198.3	227.4	253.5
Prepaid expenses	9.5	9.5	9.5	9.5
Total current assets	256.0	258.8	276.1	304.0
PPE	181.6	182.3	192.1	205.6
Intangible assets	10.5	10.5	10.5	10.5
Lease payments	-	-	-	-
Other assets	14.1	14.1	14.1	14.1
Other investments	0.6	0.6	0.6	0.6
Total assets	462.8	466.2	493.4	534.8
Finance lease obligations	-	-	-	-
Borrowings	67.1	67.1	67.1	67.1
Bank overdraft	19.0	19.0	19.0	19.0
Accounts payable	139.6	135.7	146.3	163.7
Deferred income	-	-	-	-
Total current liabilities	253.9	252.6	263.2	280.7
Finance lease obligations	-	-	-	-
Long-term debt	57.6	57.6	57.6	57.6
Employee benefits	2.7	2.7	2.7	2.7
Other liabilities	38.2	38.2	38.2	38.2
Total liabilities	352.4	351.2	361.8	379.2
Share capital	27.8	27.9	28.1	28.2
Share premium	297.8	297.8	297.8	297.8
Share based payment reserve	5.4	5.4	5.4	5.4
Other components of equity	1.4	(10.2)	(10.2)	(10.2)
Accumulated defecit	(157.8)	(141.7)	(125.2)	(101.4)
Total stockholders' equity	174.6	179.3	195.9	219.9
Total liabilities and equity	527.0	530.4	557.7	599.1
ROE	6.3%	9.0%	8.7%	11.3%
Total Debt-to-capital	41.7%	41.0%	38.9%	36.2%
Net debt-to-TTM EBITDA	1.62x	1.44x	1.48x	1.29x
Cash (debt) per share	(\$0.58)	(\$0.64)	(\$0.71)	(\$0.72)

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

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

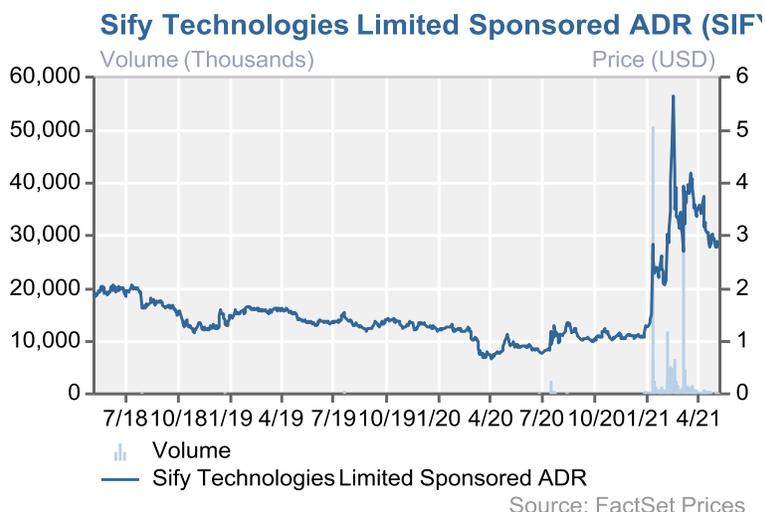
Appendix
Required Disclosures

Required Disclosures

Sify Technologies Limited Sponsored ADR (SIFY-\$2.94) NR Price Target: \$6 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
PT	7/13/18	2		4	
PT	12/23/20	1.1		4	
PT	1/28/21	2.3		5	
PT	5/4/21	2.8		5	



Valuation	<p>We raise our price target to \$6 (from \$5) on SIFY shares. While the pandemic 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 likely be a primary beneficiary of this transformation. With the stock trading at 6.1x our projections on a F2023 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. Our \$6 price target is based on 12x our F2023 EBITDA estimate of \$98.8 million (up from \$91.5 million), less projected net debt of \$130 million, to yield \$1,055 million, or \$5.89 on a per share basis. Given the company's growth potential and modest leverage, we maintain a Moderately Risky rating.</p>		
Key Risks	Foreign exchange	Concentrated ownership	

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