



Sify Technologies Limited Sponsored ADR (SIFY)

Raise Target To \$7 (From \$6); 2Q:F22 Revenue, EBITDA Beat Our Forecasts; Economic Recovery And Digital Transformation In India Is Driving Strong Demand For Sify's Services

	F2020		F2021		F2022E		F2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.02	\$0.01		\$0.03A		\$0.03		
Sep.	0.02	0.02		0.02	0.03A	0.03	0.04	
Dec.	0.01	0.02		0.03		0.04	0.05	
Mar.	0.01	0.03		0.03	0.04	0.05	0.06	
EPS (FY)	\$0.06	\$0.09		\$0.11	\$0.13	\$0.14	\$0.17	
EPS (Cal.)	\$0.07	\$0.10	\$0.12	\$0.13	\$0.16			
P/E (FY)					27.0x		20.6x	
P/E (Cal.)			29.3x		21.9x			
EBITDA (mil)	\$62.70	\$78.20		\$89.90	\$95.7	\$102.00	\$111.1	
EV / EBITDA					7.3x		6.3x	

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	\$441.2	\$498.1
GAAP EPS	\$0.03	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.06	\$0.09	\$0.13	\$0.17

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 delivered strong results across the board, with all segments posting better-than-expected gains in 2Q:F22. Consolidated revenue grew 18% to \$107.5 million, topping our \$97.7 million estimate.
- Management continued its track record of driving operating leverage as spending discipline led to EBITDA rising 24% to \$22.7 million, which also beat our estimate of \$20 million.
- Sify is benefitting from the digital transformation and cloud adoption of businesses in India, which is driving demand for its services. This is a massive secular trend that should provide Sify with a long runway of growth, in our view.
- To capitalize on this growth, Sify continues to expand its data center and network capacity while also adding headcount to bolster its services offering and with net debt of just \$116 million, or just 1x our F2022 EBITDA forecast, we think the company remains in strong financial shape to make these investments.
- SIFY stock trades at just 6.3x our F2023 EBITDA estimate, a significant discount to the peer group range of 8x-12x, which we do not think credits Sify's growth, profitability, and modest leverage.
- Based on the better than projected growth, we increase our F2022 and F2023 revenue and EBITDA forecasts and raise our price target to \$7 (from \$6), based on an unchanged 12x our new F2023 EBITDA estimate of \$111 million (from \$102 million), less net debt of \$116 million. The \$7 price target also implies 41x our new F2023 EPS estimate of \$0.17.
- Given the company's growth potential and modest leverage, we maintain our Moderately Risk rating.

Post-pandemic recovery in India continues to drive stronger-than expected growth as 2Q:F22 revenue beat our forecast. With Covid cases declining significantly from the mid-

NR

Price Target: \$7

Price: \$3.51

Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$630
Enterprise Value	\$700
52-Week Range (NASDAQ)	6-1
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	268,000
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)	\$0.03
FCF Yield (F2023E)	0.9%
Net Cash Per Share (F2023E)	(\$0.33)
Price to Book Value	3.5x
Return on Equity (F2023E)	12.9%
Total Debt to Capital	Nil
Interest Coverage Ratio	2.9x
Short Interest %	N/A%
Short Interest Days To Cover	3.0
Russell 2000	2,298
Russell 2000 – Last 12 Months	48.9%
SIFY – Last 12 Months	223.6%



Sify Technologies Limited Sponsored ADR

Source: FactSet Prices

year Delta-variant spike, economic activity in India is recovering and Indian companies are spending on digital and cloud transformation projects. This is directly benefitting Sify as was the case this quarter where broad-based strength across all its businesses delivered better than project growth. In total, revenue grew 18% to \$107.5 million, topping our \$97.7 million estimate. By segment, the company's Data Center services grew by 47% to \$38.5 million as compared with our \$26.2 million forecast. Sify's data center investments will continue to fuel growth. Sify currently operates 10 data centers across 6 cities with 74 megawatts of capacity. Management aims to add another 10 megawatts of capacity in its existing infrastructure and the company has two new greenfield facilities in the works, one of which is expected to go live in early 2022, which according to management will add significant incremental capacity. Sify's Digital Services, comprised of Cloud and Managed services, Applications and Technology Integration services also delivered solid growth of 17%, as compared with the 5% decline we forecast. Finally, Network services, which declined during the pandemic, continued to recover, with revenue rising 7%, to \$47.3 million as compared with our \$45.9 million forecast. Given the better-than-projected growth, we raise our F2022 and F2023 revenue forecasts to \$441.2 million (from \$419.5 million) and \$498.1 million (from \$468.4 million), implying growth of 18% and 13%, respectively.

EBITDA in 2Q:F22 also exceeded our expectations. In addition to the stronger-than-projected revenue, management continues to maintain a tight control on spending to deliver profitable growth. The gross margin varies by segment and the higher mix of Data Center and Cloud and Managed Services led to a gross margin of 39.9%, up from 38.2% a year ago. This was below our 41% estimate but the EBITDA margin of 21.1% was still better than the 20.5% we forecast as operating expenses were in line with our expectations despite the higher revenue. As a result, EBITDA increased 24% to \$22.7 million, topping our \$20 million estimate. Net income also increased 38.5% and EPS increased to \$0.03 from \$0.02 a year ago, topping our \$0.02 estimate.

Exhibit 1: Sify Technologies Preview						
	<u>2Q:F22E</u>	<u>2Q:F22A</u>	<u>Var</u>	<u>2Q:F21A</u>	<u>2Q:F22A</u>	<u>% Change</u>
Total revenue	\$97.7	107.5	9.8	\$90.8	107.5	18.4%
Gross Profit	40.1	42.8	2.7	34.6	42.8	23.7%
(%)	41.0%	39.8%		38.1%	39.8%	
EBITDA	20.0	22.7	2.7	18.3	22.7	24.0%
(%)	20.5%	21.1%		20.2%	21.1%	
Diluted EPS	\$0.02	\$0.03	\$0.01	\$0.02	\$0.03	35.1%

Sources: Sidoti & Company, LLC estimates and company filings

Sify is in a strong financial position to invest in its infrastructure and capitalize on the growing demand for data center and Cloud services in India, in our view. Sify ended 2Q:F22 with cash of \$58.6 million and debt of \$160 million. Sify generates cash so it has been able to self fund a portion of its growth, but we expect it will continue to add debt as needed and based on net leverage of just 1x our \$96 million F2022 EBITDA forecast, the company likely has room for it.

Valuation	We raise our price target to \$7 (from \$6) on SIFY shares. While the pandemic curbed economic growth in India for a short period, it did not change the long-term trajectory of the digital transformation of India's economy. We think Sify will be a primary beneficiary of this transformation. With the stock trading at 6.3x 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 \$7 price target is based on 12x our F2023 EBITDA estimate of \$111 million, less net debt of \$116 million, to yield \$1,216 million, or \$6.85 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	JunA	SepA	DecE	MarE	F2022E	JunE	SepE	DecE	MarE	F2023E
Total revenue	353.1	80.9	90.8	96.9	105.5	374.1	99.2	107.5	111.2	123.3	441.2	114.3	120.7	124.4	138.7	498.1
COGS	221.4	47.7	56.1	60.6	61.7	226.1	60.1	64.6	65.8	74.7	265.3	67.3	71.2	72.6	83.1	294.1
Gross profit	131.7	33.2	34.6	36.4	43.8	148.0	39.2	42.8	45.4	48.6	176.0	47.0	49.5	51.8	55.6	203.9
SG&A	69.0	15.4	16.4	16.5	21.4	69.8	16.8	20.1	21.1	22.2	80.2	22.3	23.3	23.1	24.1	92.8
EBITDA	62.7	17.7	18.3	19.9	22.4	78.2	22.4	22.7	24.3	26.4	95.7	24.8	26.2	28.7	31.4	111.1
D&A	35.2	10.1	10.3	10.9	12.3	43.6	12.3	12.2	12.5	12.7	49.8	12.8	13.1	13.3	13.6	52.8
EBIT	27.5	7.6	8.0	8.9	10.0	34.6	10.0	10.6	11.7	13.6	46.0	11.9	13.2	15.3	17.9	58.3
Interest and other expense (income)	13.2	3.6	2.2	3.3	3.0	12.2	3.5	3.9	4.6	4.6	16.6	4.6	4.6	4.6	4.6	18.5
Other expense (income)	(1.4)	(0.1)	(0.5)	(0.6)	(1.0)	(2.2)	(0.2)	(0.4)	(0.5)	(0.5)	(1.7)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)
EBT	15.7	4.1	6.4	6.2	8.0	24.6	6.8	7.1	7.6	9.5	31.0	7.8	9.1	11.3	13.8	41.9
Taxes	4.8	1.4	2.4	2.3	2.4	8.5	1.7	1.6	1.8	2.2	7.3	2.3	2.7	2.8	3.4	11.3
Net income	10.8	2.6	4.0	3.9	5.6	16.1	5.1	5.5	5.9	7.4	23.8	5.5	6.4	8.4	10.3	30.6
EPS - diluted	\$0.06	\$0.01	\$0.02	\$0.02	\$0.03	\$0.09	\$0.03	\$0.03	\$0.03	\$0.04	\$0.13	\$0.03	\$0.04	\$0.05	\$0.06	\$0.17
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%	39.5%	39.9%	40.8%	39.4%	39.9%	41.2%	41.0%	41.6%	40.1%	40.9%
EBITDA	17.8%	21.9%	20.2%	20.5%	21.2%	20.9%	22.5%	21.1%	21.8%	21.4%	21.7%	21.7%	21.7%	23.0%	22.7%	22.3%
Operating margin	7.8%	9.4%	8.8%	9.2%	9.5%	9.3%	10.1%	9.8%	10.5%	11.1%	10.4%	10.4%	10.9%	12.3%	12.9%	11.7%
Net margin	3.1%	3.3%	4.4%	4.0%	5.3%	4.3%	5.1%	5.1%	5.3%	6.0%	5.4%	4.8%	5.3%	6.8%	7.5%	6.1%
Growth YoY																
YoY																
Total revenue	6.5%	(4.7%)	1.6%	7.0%	19.6%	6.0%	22.7%	18.4%	14.7%	16.8%	17.9%	15.2%	12.3%	11.9%	12.4%	12.9%
Gross profit	8.2%	9.6%	4.4%	9.4%	25.4%	12.4%	18.0%	23.7%	24.7%	10.9%	18.9%	20.2%	15.6%	14.1%	14.4%	15.9%
EBITDA	30.6%	31.9%	12.1%	17.0%	40.0%	24.8%	26.1%	24.2%	22.1%	18.0%	22.3%	10.7%	15.4%	18.1%	19.2%	16.0%
EBIT	30.6%	31.9%	12.1%	17.0%	40.0%	24.8%	26.1%	24.2%	22.1%	18.0%	22.3%	10.7%	15.4%	18.1%	19.2%	16.0%
EPS	(34.2%)	(20.4%)	34.6%	53.7%	171.1%	48.1%	91.3%	38.5%	51.6%	31.5%	47.9%	8.1%	16.1%	43.6%	40.5%	28.8%

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	\$23.6	\$23.5	\$30.6
D&A	35.2	43.6	49.5	52.8
Provision for doubtful accounts	7.4	11.6	-	-
Stock compensation	0.7	0.6	0.2	0.2
Net finance (income) / expense	13.2	12.2	-	-
Unrealized (gain) / loss on account of exchange differences	0.1	0.1	-	-
Amortization of leasehold prepayments	-	-	-	-
Accounts receivable	(4.5)	16.5	(26.8)	(22.8)
Inventory	6.4	(1.7)	(2.1)	(2.6)
Prepaid and other current assets	(6.0)	(2.5)	-	-
Accounts payable	3.6	3.5	14.6	17.0
Employee benefits	0.3	0.3	-	-
Deferred income	-	-	-	-
Income taxes (paid)/ refund received	-	(1.6)	-	-
Cash from operating activities	76.9	107.2	58.8	75.1
PPE	(62.5)	(40.9)	(61.8)	(69.7)
Intangible assets	-	(4.7)	-	-
Investments in debt securities	-	(0.1)	-	-
Finance income received	-	2.2	-	-
Cash from investing activities	(64.0)	(55.7)	(61.8)	(69.7)
Proceeds (purchase) of common stock	0.1	3.8	-	-
Debt	22.9	24.1	-	-
Finance expenses paid	(16.1)	(14.9)	-	-
Proceeds (repayment) finance lease liabilities	(3.4)	(3.5)	-	-
Dividend and distribution tax	(3.4)	-	-	-
Cash from financing activities	0.1	9.5	-	-
FX	-	-	-	-
Net change in cash	13.0	61.0	(2.9)	5.4
Cash at the beginning of period	10.3	23.3	84.3	81.3
Cash at the end of period	23.3	84.3	81.3	86.8
FCF	14.4	66.3	(2.9)	5.4
FCF / share	\$0.08	\$0.37	(\$0.02)	\$0.03

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	78.5	75.5	80.9
Restricted cash	5.1	6.2	6.2	6.2
Inventory	\$20.0	\$21.8	\$23.9	\$26.5
Accounts receivable	185.7	149.6	176.4	199.2
Prepaid expenses	9.5	8.8	8.8	8.8
Total current assets	256.0	264.7	290.7	321.6
PPE	181.6	192.3	194.6	211.5
Intangible assets	10.5	10.7	10.7	10.7
Lease payments	-	-	-	-
Other assets	14.1	13.0	13.0	13.0
Other investments	3.3	3.3	3.3	3.3
Total assets	465.4	484.0	512.3	560.1
Finance lease obligations	-	-	-	-
Borrowings	67.1	88.7	88.7	88.7
Bank overdraft	19.0	1.9	1.9	1.9
Accounts payable	139.6	141.9	156.5	173.5
Deferred income	-	-	-	-
Total current liabilities	253.9	260.3	274.9	292.0
Finance lease obligations	-	-	-	-
Long-term debt	57.6	56.0	56.0	56.0
Employee benefits	2.7	3.0	3.0	3.0
Other liabilities	38.2	42.2	42.2	42.2
Total liabilities	352.4	361.5	376.1	393.2
Share capital	27.8	28.2	28.4	28.5
Share premium	297.8	302.0	302.0	302.0
Share based payment reserve	5.4	5.2	5.2	5.2
Other components of equity	1.4	1.4	(8.6)	(8.6)
Accumulated deficit	(157.8)	(134.2)	(110.7)	(80.1)
Total stockholders' equity	174.6	202.5	216.2	247.0
Total liabilities and equity	527.0	564.1	592.4	640.2
ROE	6.3%	8.1%	11.3%	12.9%
Total Debt-to-capital	41.7%	41.7%	40.1%	37.0%
Net debt-to-TTM EBITDA	1.62x	0.79x	0.68x	0.54x
Cash (debt) per share	(\$0.58)	(\$0.35)	(\$0.36)	(\$0.33)

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

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

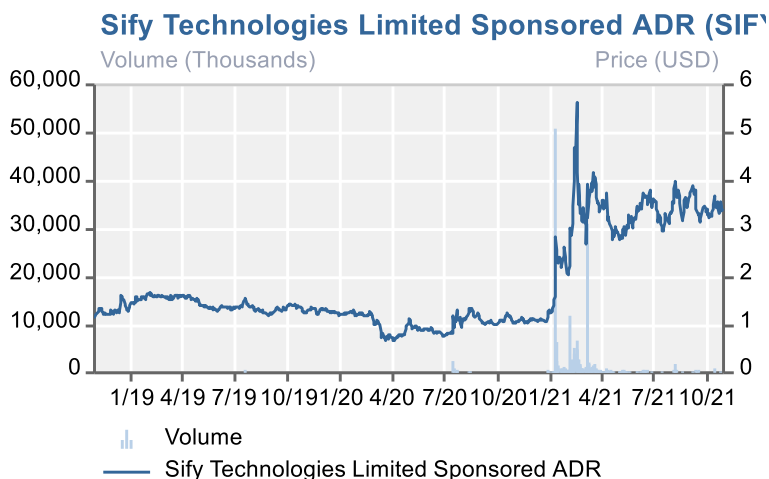
Appendix
Required Disclosures

Required Disclosures

Sify Technologies Limited Sponsored ADR (SIFY-\$3.51) NR Price Target: \$7 Risk Rating: M

Rating and Price Target History Table

Action Date	Px	Rating	PT	Risk Rating
PT 12/23/20	1.1		4	
PT 1/28/21	2.3		5	
PT 5/4/21	2.8		5	
PT 5/7/21	2.9		6	
PT 7/26/21	3.2		6	
PT 7/30/21	3.4		6	
PT 9/14/21	3.4		6	



Valuation	<p>We raise our price target to \$7 (from \$6) on SIFY shares. While the pandemic curbed economic growth in India for a short period, it did not change the long-term trajectory of the digital transformation of India's economy. We think Sify will be a primary beneficiary of this transformation. With the stock trading at 6.3x 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 \$7 price target is based on 12x our F2023 EBITDA estimate of \$111 million, less net debt of \$116 million, to yield \$1,216 million, or \$6.85 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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