



Sify Technologies Limited Sponsored ADR (SIFY)

3Q:F22 Revenue Missed, EBITDA In line With Our Forecasts; Demand For Sify's Cloud Services Remains Strong; Data Center Investments Will Be A Growth Catalyst; Maintain \$7 Price Target

	F2021		F2022E		F2023E		F2024E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.01	\$0.03A		\$0.03			\$0.03	
Sep.	0.02	0.03A		0.03			0.03	
Dec.	0.02	0.03	0.03A	0.04			0.04	
Mar.	0.03	0.04		0.04			0.05	
EPS (FY)	\$0.09	\$0.13		\$0.14			\$0.15	
EPS (Cal.)	\$0.12	\$0.14			\$0.14			
P/E (FY)				21.2x			19.8x	
P/E (Cal.)		21.2x			21.2x			
EBITDA (mil)	\$78.20	\$95.70	\$96.30	\$111.10	\$112.80		\$138.40	
EV / EBITDA			7.2x		6.1x		5.0x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. F2021-F2024E 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	F2015	F2016	F2017	F2018	F2019	F2020	F2021	F2022E	F2023E	F2024E
Rev.(Mil.)	\$197.9	\$231.3	\$283.6	\$318.2	\$331.5	\$353.1	\$374.1	\$435.4	\$510.3	\$581.8
GAAP EPS	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.06	\$0.09	\$0.13	\$0.14	\$0.15

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 3Q:F22 grew 7.6% year over year to \$104.4 million, missing our \$111.2 million forecast.
- The miss was driven by delayed projects in the company's Technology Integration Services segment. Management expects these projects to close in 4Q:F22.
- More importantly, Sify growth engine, its Data Center and Cloud and Managed Services delivered another strong quarter of growth, with Data Center colocation services rising 44%. Sify no longer breaks our Cloud services revenue separately; this revenue was up 25% from the prior-year period in the first half of F2022 and management said it grew in 3Q:F22.
- Management continued its track record of driving operating leverage. Spending discipline led to EBITDA rising 22% to \$24.2 million, which was in line with our estimate.
- The pandemic has accelerated India's digital transformation, which is driving strong demand for Sify's Cloud infrastructure and services. This is a massive secular trend that should provide Sify with a long runway of growth, in our view.
- To capitalize on this massive secular trend, Sify continues to expand its data center and network capacity. With net debt of \$155 million, or 1.6x our F2022 EBITDA forecast, we think the company remains in strong financial shape to make these investments.
- SIFY stock trades at just 6.1x and 5.0x our F2023 and F2024 EBITDA estimates, a significant discount to the peer group range of 8x-12x, which we do not think sufficiently credits Sify's growth, profitability, and modest leverage.
- We maintain our price target of \$7, which is based on 11x our F2024 EBITDA estimate of \$138 million, less projected net debt of \$212 million.
- Given the company's growth potential and modest leverage of 1.5x estimated fiscal

NR

Price Target: \$7

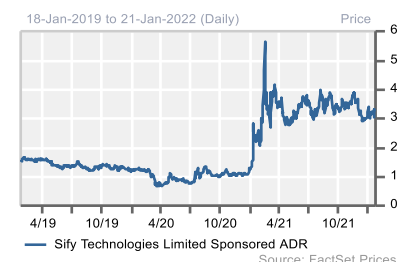
Price: \$2.97

Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$530
Enterprise Value	\$690
52-Week Range (NASDAQ)	6-2
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	244,000
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 (F2024E)	(\$0.51)
FCF Yield (F2024E)	-17.2%
Net Cash Per Share (F2024E)	(\$1.19)
Price to Book Value	3.0x
Return on Equity (F2024E)	10.7%
Total Debt to Capital	47%
Interest Coverage Ratio	2.6x
Short Interest %	N/A%
Short Interest Days To Cover	2.4
Russell 2000	1,937
Russell 2000 – Last 12 Months	-7.2%
SIFY – Last 12 Months	27.7%



2022 year-end net debt-to- EBITDA, we maintain our Moderately Risky rating.

Project delays led to lower-than-projected revenue in 3Q:F22. Revenue in 3Q:F22 grew 7.6% from the prior year period to \$104.4 million, missing our \$111.2 million forecast. Sify's project-based Technology Integration Services can lead to lumpy results; this was the case this quarter, where management noted several large projects were delayed due to supply constraints. This missed revenue is expected to fall into 4Q:F22. More importantly Sify, continues to see strong growth in its primary growth engines, its Data Center and Cloud Services. Data Center colocation services grew 44% in 3Q:F22, besting the 35% growth we forecast. Digital services, of which Technology Integration Services is a part of, declined 18%. However, management did note that Cloud and Managed service were up in the quarter. This is the first quarter Sify has aggregated its Cloud Services, Technology Integration Services, and its Application Integration Services under the Digital Services Umbrella. Cloud and Managed services were up 25% year-to-date and we think they were likely up a comparable amount in 3Q:F22. Finally, Sify's Network services grew by 8%, topping our 4% estimate, as increased data consumption continues to drive demand for its network transportation services.

EBITDA in 3Q:F22 was in line with our expectations. Sify's Technology Integration Services are lower margin, so a revenue miss in this business did not have a big impact on its profitability. The gross margin varies by segment. The higher mix of Data Center and Cloud and Managed Services led to a gross margin of 42%, up from 37.5% a year ago. This was above our 40.8% estimate. Management has maintained a tight control on spending during the pandemic. As a result EBITDA growth has been outpacing revenue growth. In 3Q:F22 operating expenses of \$19.7 million were below our \$21.1 million forecast which along the gross margin led to an EBITDA margin of 23.2%, up from 20.5% a year ago and above our 21.8% forecast. As a result, despite the revenue miss, EBITDA grew 22% to \$24.2 million, in line with our projection. Net income also increased 36.5% and EPS increased to \$0.03 from \$0.02 a year ago, also in line with our estimate.

Exhibit 1: Sify Technologies Preview						
	<u>3Q:F22E</u>	<u>3Q:F22A</u>	<u>Var</u>	<u>3Q:F21A</u>	<u>3Q:F22A</u>	<u>% Change</u>
Total revenue	\$111.2	104.5	(6.8)	\$96.9	104.5	7.6%
Gross Profit	45.4	43.9	(1.5)	36.4	43.9	20.6%
(%)	40.8%	42.0%		37.5%	42.0%	
EBITDA	24.3	24.2	(0.1)	19.9	24.2	21.9%
(%)	21.9%	23.2%		20.5%	23.2%	
Diluted EPS	\$0.03	\$0.03	\$0.00	\$0.02	\$0.03	36.5%

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 3Q:F22 with cash of \$36.6 million and debt of \$192 million. Sify generates cash so it has been able to self-fund a portion of its growth and based on net leverage of 1.6x our \$96.3 million F2022 EBITDA forecast and the EBITDA growth we project, we think the company has capacity to add addition debt as needed. In addition the outside investment of \$135 million from Kotak Advisors gives Sify additional liquidity to pursue greenfield data center investments.

Valuation	We maintain our price target of \$7 on SIFY shares. Although 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 6.1x our projections on a F2023 EV/EBITDA basis, and 5x our F2024 forecast SIFY is valued at a significant discount to peers in the India Telecom and application and technology integration market players 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 11x our F2024 EBITDA estimate of \$138.4 million, less projected net debt of \$212 million, to yield \$1,310 million, or \$7.36 on a per share basis. We previously valued the stock based on 12x our F2023 EBITDA estimate of \$111 million. The lower multiple reflects the longer time horizon of our estimates. 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)

	Jun	Sep	Dec	Mar	F2021	JunA	SepA	DecA	MarE	F2022E	JunE	SepE	DecE	MarE	F2023E	F2024E
Total revenue	80.9	90.8	96.9	105.5	374.1	99.2	107.5	104.4	124.3	435.4	116.4	122.7	129.6	141.7	510.3	581.8
COGS	47.7	56.1	60.6	61.7	226.1	60.1	64.6	60.5	75.1	260.3	68.2	72.0	75.0	84.3	299.5	335.0
Gross profit	33.2	34.6	36.4	43.8	148.0	39.2	42.8	43.9	49.2	175.1	48.2	50.6	54.5	57.4	210.8	246.7
SG&A	15.4	16.4	16.5	21.4	69.8	16.8	20.1	19.7	22.4	78.9	23.4	24.4	24.9	25.5	98.2	108.5
EBITDA	17.7	18.3	19.9	22.4	78.2	22.4	22.7	24.2	26.9	96.2	24.8	26.2	29.7	31.9	112.6	138.3
D&A	10.1	10.3	10.9	12.3	43.6	12.3	12.2	12.9	12.7	50.0	12.8	13.9	15.4	17.4	59.4	76.0
EBIT	7.6	8.0	8.9	10.0	34.6	10.0	10.6	11.4	14.2	46.2	12.0	12.4	14.3	14.5	53.2	62.3
Interest and other expense (income)	3.6	2.2	3.3	3.0	12.2	3.5	3.9	4.3	4.6	16.3	5.1	5.1	5.1	5.1	20.4	26.3
Other expense (income)	(0.1)	(0.5)	(0.6)	(1.0)	(2.2)	(0.2)	(0.4)	(0.3)	(0.5)	(1.4)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)	(2.2)
EBT	4.1	6.4	6.2	8.0	24.6	6.8	7.1	7.3	10.1	31.3	7.5	7.8	9.7	10.0	35.0	38.2
Taxes	1.4	2.4	2.3	2.4	8.5	1.7	1.6	2.0	2.3	7.7	2.2	2.3	2.9	3.0	10.5	11.5
Net income	2.6	4.0	3.9	5.6	16.1	5.1	5.5	5.3	7.8	23.6	5.2	5.5	6.8	7.0	24.5	26.7
EPS - diluted	\$0.01	\$0.02	\$0.02	\$0.03	\$0.09	\$0.03	\$0.03	\$0.03	\$0.04	\$0.13	\$0.03	\$0.03	\$0.04	\$0.04	\$0.14	\$0.15
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	41.0%	38.2%	37.5%	41.5%	39.6%	39.5%	39.9%	42.0%	39.6%	40.2%	41.4%	41.3%	42.1%	40.5%	41.3%	42.4%
EBITDA	21.9%	20.2%	20.5%	21.2%	20.9%	22.5%	21.1%	23.2%	21.6%	22.1%	21.3%	21.4%	22.9%	22.5%	22.1%	23.8%
Operating margin	9.4%	8.8%	9.2%	9.5%	9.3%	10.1%	9.8%	10.9%	11.4%	10.6%	10.3%	10.1%	11.0%	10.3%	10.4%	10.7%
Net margin	3.3%	4.4%	4.0%	5.3%	4.3%	5.1%	5.1%	5.1%	6.3%	5.4%	4.5%	4.5%	5.3%	4.9%	4.8%	4.6%
Growth YoY																
YoY																
Total revenue	(4.7%)	1.6%	7.0%	19.6%	6.0%	22.7%	18.4%	7.6%	17.8%	16.4%	17.3%	14.1%	24.2%	14.0%	17.2%	14.0%
Gross profit	9.6%	4.4%	9.4%	25.4%	12.4%	18.0%	23.7%	20.6%	12.4%	18.3%	23.1%	18.2%	24.3%	16.6%	20.4%	17.0%
EBITDA	31.9%	12.1%	17.0%	40.0%	24.8%	26.1%	24.2%	21.9%	20.2%	22.9%	10.9%	15.4%	22.5%	18.7%	17.1%	22.8%
EBIT	31.9%	12.1%	17.0%	40.0%	24.8%	26.1%	24.2%	21.9%	20.2%	22.9%	10.9%	15.4%	22.5%	18.7%	17.1%	22.8%
EPS	(20.4%)	34.6%	53.7%	171.1%	48.1%	91.3%	38.5%	36.5%	39.3%	47.0%	3.2%	(0.3%)	28.8%	(10.1%)	3.7%	9.2%

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)

	F2021	F2022E	F2023E	F2024E
Net income	\$23.6	\$23.5	\$24.5	\$26.7
D&A	43.6	49.4	59.4	76.0
Provision for doubtful accounts	11.6	-	-	-
Stock compensation	0.6	0.2	0.2	0.2
Net finance (income) / expense	12.2	-	-	-
Unrealized (gain) / loss on account of exchange differences	0.1	-	-	-
Amortization of leasehold prepayments	-	-	-	-
Accounts receivable	16.5	(24.5)	(30.0)	(28.6)
Inventory	(1.7)	(1.7)	(3.5)	(3.2)
Prepaid and other current assets	(2.5)	-	-	-
Accounts payable	3.5	11.6	23.2	20.9
Employee benefits	0.3	-	-	-
Deferred income	-	-	-	-
Income taxes (paid)/ refund received	(1.6)	-	-	-
Cash from operating activities	107.2	58.5	73.7	92.0
PPE	(40.9)	(61.0)	(160.8)	(183.3)
Intangible assets	(4.7)	-	-	-
Investments in debt securities	(0.1)	-	-	-
Finance income received	2.2	-	-	-
Cash from investing activities	(55.7)	(61.0)	(160.8)	(183.3)
Proceeds (purchase) of common stock	3.8	-	-	-
Debt	24.1	-	76.9	46.2
Finance expenses paid	(14.9)	-	-	-
Proceeds (repayment) finance lease liabilities	(3.5)	-	-	-
Dividend and distribution tax	-	-	-	-
Cash from financing activities	9.5	-	76.9	46.2
FX	-	-	-	-
Net change in cash	61.0	(2.4)	(10.3)	(45.1)
Cash at the beginning of period	23.3	84.3	81.9	71.6
Cash at the end of period	84.3	81.9	71.6	26.5
FCF	66.3	(2.4)	(87.2)	(91.3)
FCF / share	\$0.37	(\$0.01)	(\$0.49)	(\$0.51)

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)

	F2021	F2022E	F2023E	F2024E
Cash	78.5	76.0	65.8	20.6
Restricted cash	6.2	6.2	6.2	6.2
Inventory	\$21.8	\$23.4	\$27.0	\$30.2
Accounts receivable	149.6	174.1	204.1	232.7
Prepaid expenses	8.8	8.8	8.8	8.8
Total current assets	264.7	288.5	311.8	298.4
PPE	192.3	193.8	295.3	402.6
Intangible assets	10.7	10.7	10.7	10.7
Lease payments	-	-	-	-
Other assets	13.0	13.0	13.0	13.0
Other investments	3.3	3.3	3.3	3.3
Total assets	484.0	509.3	634.1	728.1
Finance lease obligations	-	-	-	-
Borrowings	88.7	88.7	134.9	181.0
Bank overdraft	1.9	1.9	1.9	1.9
Accounts payable	141.9	153.5	176.7	197.7
Deferred income	-	-	-	-
Total current liabilities	260.3	272.0	341.3	408.4
Finance lease obligations	-	-	-	-
Long-term debt	56.0	56.0	56.0	56.0
Employee benefits	3.0	3.0	3.0	3.0
Other liabilities	42.2	42.2	42.2	42.2
Compulsory convertible debentures	-	-	30.8	30.8
Other	-	-	-	-
Other	-	-	-	-
Total liabilities	361.5	373.2	473.3	540.4
Share capital	28.2	28.4	28.5	28.7
Share premium	302.0	302.0	302.0	302.0
Share based payment reserve	5.2	5.2	5.2	5.2
Other components of equity	1.4	(8.6)	(8.6)	(8.6)
Accumulated deficit	(134.2)	(110.7)	(86.2)	(59.5)
Total stockholders' equity	202.5	216.2	240.9	267.8
Total liabilities and equity	564.1	589.4	714.2	808.1
ROE	8.1%	11.2%	11.3%	10.7%
Total Debt-to-capital	41.7%	40.1%	44.2%	47.0%
Net debt-to-TTM EBITDA	0.79x	0.67x	1.07x	1.53x
Cash (debt) per share	(\$0.35)	(\$0.36)	(\$0.68)	(\$1.19)

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

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

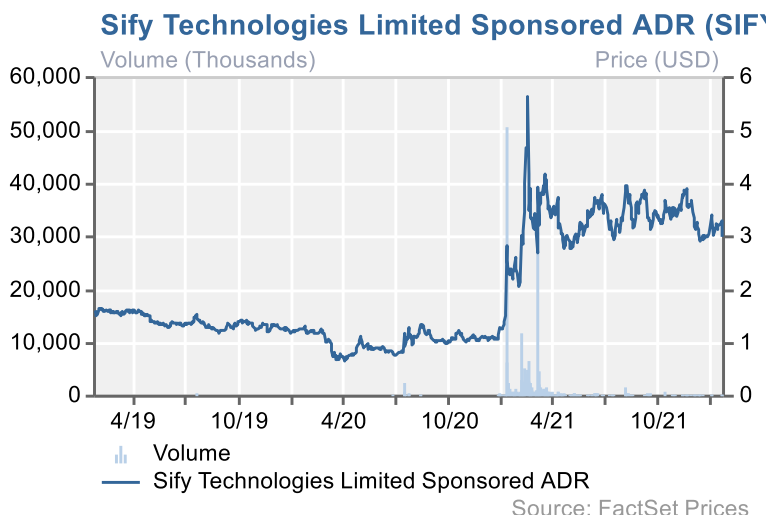
Appendix
Required Disclosures

Required Disclosures

Sify Technologies Limited Sponsored ADR (SIFY-\$2.97) 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	
PT 10/29/21	3.5		7	
PT 11/9/21	3.6		7	
PT 1/18/22	3.2		7	



Valuation	<p>We maintain our price target of \$7 on SIFY shares. Although 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 6.1x our projections on a F2023 EV/EBITDA basis, and 5x our F2024 forecast SIFY is valued at a significant discount to peers in the India Telecom and application and technology integration market players 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 11x our F2024 EBITDA estimate of \$138.4 million, less projected net debt of \$212 million, to yield \$1,310 million, or \$7.36 on a per share basis. We previously valued the stock based on 12x our F2023 EBITDA estimate of \$111 million. The lower multiple reflects the longer time horizon of our estimates. 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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