



Sify Technologies Limited Sponsored ADR (SIFY)

1Q:F23 Revenue Beat, EBITDA Lagged Our Forecast; We Are Bullish On Sify's Growth Prospects, As It Is Well Positioned To Capitalize On Surging Demand For Data Center Infrastructure In India

	F2021		F2022		F2023E		F2024E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.01	\$0.03		\$0.01	\$0.02A	\$0.02		
Sep.	0.02	0.03		0.02		0.02		
Dec.	0.02	0.03		0.03		0.03		
Mar.	0.03	0.03		0.03		0.04		
EPS (FY)	\$0.09	\$0.12		\$0.09	\$0.10	\$0.11		
EPS (Cal.)	\$0.12	\$0.08	\$0.09	\$0.11	\$0.10			
P/E (FY)				24.6x	22.1x	20.1x		
P/E (Cal.)			24.6x	20.1x	22.1x			
EBITDA (mil)	\$78.20	\$92.90		\$112.90	\$112.30	\$140.6	\$140.3	
EV / EBITDA				4.7x	3.7x	3.7x		

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	F2022	F2023E	F2024E
Rev.(Mil.)	\$197.9	\$231.3	\$283.6	\$318.2	\$331.5	\$353.1	\$374.1	\$415.8	\$500.1	\$569.2
GAAP EPS	\$0.03	\$0.04	\$0.06	\$0.08	\$0.09	\$0.06	\$0.09	\$0.12	\$0.10	\$0.11

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 remained on a strong growth trajectory in 1Q:F23 with revenue increasing 19.5% year over year to \$118.6 million, topping our \$111.2 million forecast.**
- **Although revenue topped our estimate, EBITDA was just below our expectation, rising 5% \$23.5 million, versus our \$23.9 million forecast.**
- **Sify's main growth engine, its Data Center Services grew 56%. Given the growing demand for data center infrastructure and Sify's planned capacity expansion, we remain bullish on the growth potential of this part of Sify's business.**
- **To capitalize on the surging demand, Sify aims to triple its data center footprint over the next four years, spending \$530 million to add 200 megawatts of capacity.**
- **Through a combination of third-party equity investments, debt and operating cash flow we think Sify has the liquidity to fund its ambitious growth investments.**
- **Given the company's track record of revenue and EBITDA growth, modest leverage and potential for further gains backed by strong secular trends, we think the stock is significantly undervalued, trading at just 4.7x and 3.7x our projected F2023 and F2024 EBITDA estimates.**
- **We maintain our price target of \$7, which is based on 11x our F2024 EBITDA estimate of \$140.3 million, less projected net debt of \$257 million.**
- **Given the company's growth potential and modest leverage we maintain our Moderately Risk rating.**

Revenue in 1Q:F23 beat our forecast. Revenue in 1Q:F23 grew 19.5% to \$118.6 million, topping our \$111.2 million forecast. Sify consolidates its Cloud and Managed services, Technology Integration Services, and Application Integration Services under the banner of its Digital Services segment which grew 1% in 1Q:F23, in line with our projection. The growing demand for data and high-speed bandwidth in India continues to drive strong demand for Sify's Network Service, which grew 10.5%, also in line with our expectations. The beat in the

NR

Price Target: \$7

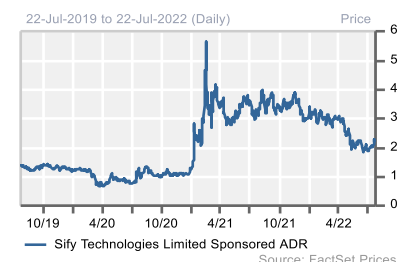
Price: \$2.21

Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$400
Enterprise Value	\$524
52-Week Range (NASDAQ)	4-2
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	71,000
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)	(\$0.44)
FCF Yield (F2024E)	-19.9%
Net Cash Per Share (F2024E)	(\$1.44)
Price to Book Value	2.2x
Return on Equity (F2024E)	8.3%
Total Debt to Capital	52.6%
Interest Coverage Ratio	2.5x
Short Interest %	N/A%
Short Interest Days To Cover	3.0
Russell 2000	1,807
Russell 2000 – Last 12 Months	-17.8%
SIFY – Last 12 Months	-32.0%



quarter was driven by better than projected growth from Sify's Data Center Services segment, where revenue increased 56% versus our 25% forecast. As Sify's consolidated gross margin was lower than we projected, the additional revenue likely came from lower-margin project work. That said, we remain bullish on the long-term growth potential of the high-margin (F2021 EBIT margin of 44%) service side of this business. The demand for data center infrastructure in India is growing exponentially, driven by the economy's digital transformation, the increasing adoption of cloud services and growing data consumption by an increasingly connected populous. Driven by Sify's Data Center and Network Services, we project revenue will grow 20% in F2023 and 14% in F2024.

1Q:F23 EBITDA was just below our forecast. The gross margin declined to 36.3% from 39.5% a year ago. Sify's margins vary depending on the revenue mix in a given quarter, with lower-margin project work in its Technology Integration Services typically driving quarterly variances. In this case, we think the variance came from Data Center Services segment, as the incremental revenue did not result in the type of incremental profit that would be expected from this high-margin business; this indicates the added revenue was likely lower-margin project work. So, despite the revenue beat, Sify's gross profit was less than we projected. However, we note management is maintaining a tight control on spending as the company ramps up its capital investments, as operating expenditures as a percentage of revenue declined and were lower than we projected. All in, EBITDA grew 5% to \$23.5 million, which was just below our \$23.9 million forecast. Net income declined 18% due to higher depreciation and interest expense tied to Sify's Data Center and network investments. However, this was better than we projected, as interest expense did not rise as much as we projected. EPS of \$0.02 was also above our \$0.01 estimate. While our timing might have been off, we still expect Sify's debt load and interest expense to rise in the coming quarters.

We remain bullish on the growth potential of Sify's Data Center Services. In India, the demand for data center infrastructure is growing exponentially, driven by the economy's digital transformation, the increasing adoption of cloud services and growing data consumption by an increasingly connected populous. We do not expect demand to slow. Indeed, the rollout of 5G technology, growth in IoT-linked devices, and growing requirement for data localization will only increase data volumes and the need for additional data center capacity. Moreover, the Indian government continues to indirectly support the industry's growth through its flagship Digital India program, which is meant to foster India's transformation into a digital economy, along with several initiatives that the government has launched to promote data localization. In addition, recognizing the critical nature of the industry and the need for more investment, earlier this year the Indian government (in its Budget 2022) provided the data center sector with 'infrastructure status', bringing it on par with industries such as Railways, Roadways, and Power. The new status will ease the process of securing long-term debt financing and simplify the clearances required to set up a data center in India.

Sify has financing in place to fund its Data Center and Network investments. In November of 2021 Sify received a \$135 commitment from Kotak Special Situations Fund, managed by Kotak Advisors in the form of Compulsory Convertible Debentures; the first \$55 million is committed and will be called by Sify in two tranches between the close of the agreement and March 31, 2023. Sify retains an option to call the remaining \$80 million of capital between F2022 and F2025. In addition to this lower-cost source of capital, Sify ended 1Q:F23 with a net debt-to-TTM EBITDA ratio of 1.82x. We think the company has the capacity to tap the debt markets as needed, which should now be easier and less costly now that the Indian government has given the data center industry infrastructure status. We also project Sify will generate about \$90 million of annual operating cash flow in F2023 and F2024, which will help fund a good portion of the \$230 million of total capital spending we project in F2023-F2024.

	1Q:F23E	1Q:F23A	Var	1Q:F22A	1Q:F23A	% Change
Total revenue	\$111.2	118.6	7.4	\$99.2	118.6	19.6%
Gross Profit	45.9	43.1	(2.8)	39.2	43.1	9.9%
(%)	41.3%	36.3%		39.5%	36.3%	
EBITDA	23.9	23.5	(0.4)	22.4	23.5	4.9%
(%)	21.5%	19.8%		22.6%	19.8%	
Diluted EPS	\$0.01	\$0.02	\$0.01	\$0.03	\$0.02	(33.3%)

Sources: Sidoti & Company, LLC estimates and company filings

Valuation

We maintain our price target of \$7 on SIFY shares. The pandemic curbed economic growth in India for a short period, but did not change the long-term trajectory of the digital transformation of India's economy. We expect Sify will be a primary beneficiary of this transformation. With the stock trading at just 4.7x our projections on a F2023 EV/EBITDA basis, and 3.7x our F2024 forecast, SIFY is valued at a significant discount to peers in the India Telecom and application and technology integration market players group, which trade in a range of 8x-12x EV/EBITDA. Given Sify's historic track record of revenue and EBITDA growth and its potential for continued expansion, 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 \$140.3 million, less projected net debt of \$257 million, to yield \$1,286 million, or \$7.25 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)

	F2021	Jun	Sep	Dec	Mar	F2022	JunA	SepE	DecE	MarE	F2023E	JunE	SepE	DecE	MarE	F2024E
Total revenue	374.1	99.2	107.5	104.4	104.7	415.8	118.6	120.0	125.0	136.4	500.1	131.4	137.7	143.6	156.5	569.2
COGS	226.1	60.1	64.6	60.5	62.7	247.9	75.5	70.3	71.7	79.4	296.9	75.1	79.1	80.9	89.3	324.3
Gross profit	148.0	39.2	42.8	43.9	42.0	167.9	43.1	49.8	53.3	57.1	203.2	56.3	58.6	62.7	67.2	244.9
SG&A	69.8	16.8	20.1	19.7	18.4	74.9	19.6	23.5	23.6	24.1	90.9	25.4	26.2	26.3	26.8	104.6
EBITDA	78.2	22.4	22.7	24.2	23.6	92.9	23.5	26.2	29.6	32.9	112.3	31.0	32.5	36.4	40.4	140.3
D&A	43.6	12.3	12.2	12.9	13.2	50.5	14.3	15.4	16.6	17.8	64.0	19.2	20.2	21.2	22.4	83.0
EBIT	34.6	10.0	10.6	11.4	10.5	42.4	9.2	10.9	13.1	15.1	48.2	11.8	12.3	15.2	18.0	57.3
Interest and other expense (income)	12.2	3.5	3.9	4.3	4.1	15.8	4.3	7.2	7.2	7.2	26.0	7.9	7.9	7.9	7.9	31.5
Other expense (income)	(2.2)	(0.2)	(0.4)	(0.3)	(0.9)	(1.8)	(1.2)	(0.5)	(0.5)	(0.5)	(2.8)	(0.5)	(0.5)	(0.5)	(0.5)	(2.2)
EBT	24.6	6.8	7.1	7.3	7.2	28.4	6.1	4.2	6.4	8.4	25.1	4.5	5.0	7.9	10.7	28.0
Taxes	8.5	1.7	1.6	2.0	2.2	7.6	1.9	1.3	1.9	2.5	7.6	1.3	1.5	2.4	3.2	8.4
Net income	16.1	5.1	5.5	5.3	5.0	20.8	4.2	2.9	4.5	5.9	17.5	3.1	3.5	5.5	7.5	19.6
EPS - diluted	\$0.09	\$0.03	\$0.03	\$0.03	\$0.03	\$0.12	\$0.02	\$0.02	\$0.03	\$0.03	\$0.10	\$0.02	\$0.02	\$0.03	\$0.04	\$0.11
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	39.6%	39.5%	39.9%	42.0%	40.1%	40.4%	36.3%	41.5%	42.6%	41.8%	40.6%	42.9%	42.6%	43.7%	42.9%	43.0%
EBITDA	20.9%	22.5%	21.1%	23.2%	22.6%	22.3%	19.8%	21.9%	23.7%	24.1%	22.4%	23.6%	23.6%	25.4%	25.8%	24.6%
Operating margin	9.3%	10.1%	9.8%	10.9%	10.0%	10.2%	7.8%	9.1%	10.5%	11.1%	9.6%	9.0%	8.9%	10.6%	11.5%	10.1%
Net margin	4.3%	5.1%	5.1%	5.1%	4.8%	5.0%	3.5%	2.4%	3.6%	4.3%	3.5%	2.4%	2.5%	3.8%	4.8%	3.4%
Growth YoY																
YoY																
Total revenue	6.0%	22.7%	18.4%	7.6%	(0.8%)	11.1%	19.5%	11.7%	19.8%	30.3%	20.3%	10.8%	14.7%	14.8%	14.7%	13.8%
Gross profit	12.4%	18.0%	23.7%	20.6%	(4.1%)	13.4%	10.0%	16.1%	21.4%	35.9%	21.0%	30.8%	17.9%	17.7%	17.8%	20.5%
EBITDA	24.8%	26.1%	24.2%	21.9%	5.6%	18.8%	4.9%	15.4%	22.4%	39.4%	20.8%	32.0%	23.8%	22.8%	22.9%	25.0%
EBIT	24.8%	26.1%	24.2%	21.9%	5.6%	18.8%	4.9%	15.4%	22.4%	39.4%	20.8%	32.0%	23.8%	22.8%	22.9%	25.0%
EPS	48.1%	91.3%	38.5%	36.5%	(10.5%)	29.7%	(17.6%)	(46.4%)	(15.3%)	17.8%	(16.1%)	(25.2%)	18.9%	23.1%	27.1%	12.2%

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	F2022	F2023E	F2024E
Net income	\$23.6	\$19.3	\$17.5	\$19.6
D&A	43.6	50.7	63.9	83.0
Provision for doubtful accounts	11.6	6.7	-	-
Stock compensation	0.6	0.4	0.2	0.2
Net finance (income) / expense	12.2	15.8	-	-
Unrealized (gain) / loss on account of exchange differences	0.1	(0.2)	-	-
Amortization of leasehold prepayments	-	-	-	-
Accounts receivable	16.5	(62.8)	(8.7)	(31.1)
Inventory	(1.7)	(15.3)	4.4	(3.0)
Prepaid and other current assets	(2.5)	10.6	-	-
Accounts payable	3.5	21.0	18.6	17.8
Employee benefits	0.3	(1.1)	-	-
Deferred income	-	-	-	-
Income taxes (paid)/ refund received	(1.6)	(19.6)	-	-
Cash from operating activities	107.2	34.5	95.7	86.4
PPE	(40.9)	(104.6)	(163.1)	(165.4)
Intangible assets	(4.7)	-	-	-
Investments in debt securities	(0.1)	(4.1)	-	-
Finance income received	2.2	-	-	-
Cash from investing activities	(55.7)	(112.4)	(163.1)	(165.4)
Proceeds (purchase) of common stock	3.8	0.7	-	-
Debt	24.1	85.5	76.9	38.5
Finance expenses paid	(14.9)	(17.1)	-	-
Proceeds (repayment) finance lease liabilities	(3.5)	(4.9)	-	-
Dividend and distribution tax	-	-	-	-
Cash from financing activities	9.5	64.2	76.9	38.5
FX	-	-	-	-
Net change in cash	61.0	(13.7)	9.6	(40.5)
Cash at the beginning of period	23.3	84.3	70.6	80.2
Cash at the end of period	84.3	70.6	80.2	39.7
FCF	66.3	(70.1)	(67.3)	(78.9)
FCF / share	\$0.37	(\$0.39)	(\$0.38)	(\$0.44)

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	F2022	F2023E	F2024E
Cash	78.5	58.2	67.8	27.3
Restricted cash	6.2	12.2	12.2	12.2
Inventory	\$21.8	\$37.0	\$32.7	\$35.7
Accounts receivable	149.6	216.3	225.0	256.1
Prepaid expenses	8.8	14.8	14.8	14.8
Total current assets	264.7	338.6	352.5	346.1
PPE	192.3	256.8	342.6	425.0
Intangible assets	10.7	9.8	9.8	9.8
Lease payments	-	-	-	-
Other assets	13.0	32.9	32.9	32.9
Other investments	3.3	7.3	7.3	7.3
Total assets	484.0	645.4	745.0	821.1
Finance lease obligations	-	-	-	-
Borrowings	88.7	109.4	132.5	170.9
Bank overdraft	1.9	5.7	5.7	5.7
Accounts payable	141.9	174.4	193.0	210.8
Deferred income	-	-	-	-
Total current liabilities	260.3	324.7	366.3	422.6
Finance lease obligations	-	-	-	-
Long-term debt	56.0	119.5	119.5	119.5
Employee benefits	3.0	2.2	2.2	2.2
Other liabilities	42.2	55.0	55.0	55.0
Compulsory convertible debentures	-	-	53.8	53.8
Other	-	-	-	-
Other	-	-	-	-
Total liabilities	361.5	501.4	596.9	653.2
Share capital	28.2	28.3	28.5	28.6
Share premium	302.0	302.7	302.7	302.7
Share based payment reserve	5.2	5.4	5.4	5.4
Other components of equity	1.4	1.2	(12.3)	(12.3)
Accumulated deficit	(134.2)	(114.9)	(97.4)	(77.8)
Total stockholders' equity	202.5	222.7	226.9	246.6
Total liabilities and equity	564.1	724.1	823.8	899.8
ROE	8.1%	10.7%	8.3%	8.3%
Total Debt-to-capital	41.7%	50.7%	52.6%	54.1%
Net debt-to-TTM EBITDA	0.79x	1.76x	1.58x	1.83x
Cash (debt) per share	(\$0.35)	(\$0.92)	(\$1.00)	(\$1.44)

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

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

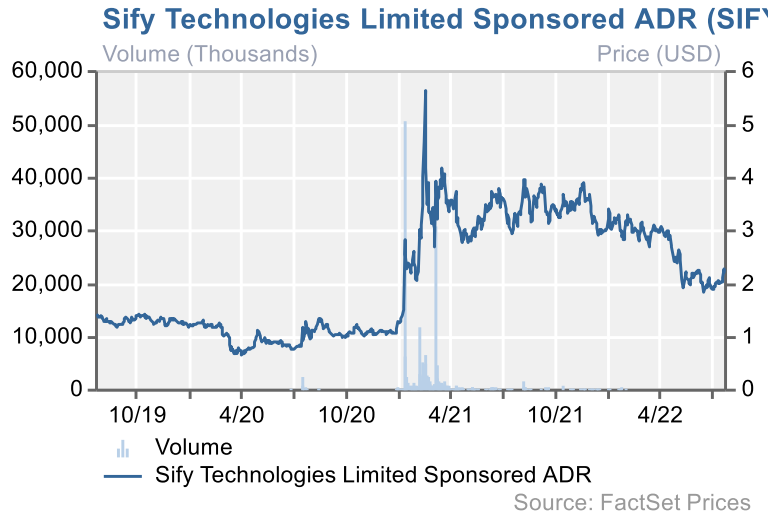
Appendix
Required Disclosures

Required Disclosures

Sify Technologies Limited Sponsored ADR (SIFY-\$2.21) 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	
PT 1/24/22	3		7	
PT 4/19/22	2.9		7	
PT 7/11/22	2		7	



Valuation	We maintain our price target of \$7 on SIFY shares. The pandemic curbed economic growth in India for a short period, but did not change the long-term trajectory of the digital transformation of India's economy. We expect Sify will be a primary beneficiary of this transformation. With the stock trading at just 4.7x our projections on a F2023 EV/EBITDA basis, and 3.7x our F2024 forecast, SIFY is valued at a significant discount to peers in the India Telecom and application and technology integration market players group, which trade in a range of 8x-12x EV/EBITDA. Given Sify's historic track record of revenue and EBITDA growth and its potential for continued expansion, 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 \$140.3 million, less projected net debt of \$257 million, to yield \$1,286 million, or \$7.25 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

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