



Sify Technologies Limited Sponsored ADR (SIFY)

Kotak Advisors Investment In Sify's Data Center Subsidiary Will Accelerate The Already Strong Growth Of This Business, In Our View; Maintain \$7 Price Target

	F2020		F2021		F2022E		F2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
June	\$0.02	\$0.01		\$0.03A		\$0.03		
Sep.	0.02	0.02		0.03		0.04	0.03	
Dec.	0.01	0.02		0.03A		0.05	0.04	
Mar.	0.01	0.03		0.04		0.06	0.04	
EPS (FY)	\$0.06	\$0.09		\$0.13		\$0.17	\$0.14	
EPS (Cal.)	\$0.07	\$0.12E		\$0.16	\$0.14			
P/E (FY)		40.0x		27.7x			25.7x	
P/E (Cal.)					25.7x			
EBITDA (mil)	\$62.70	\$78.20		\$95.70		\$111.10		
EV / EBITDA				7.7x		6.6x		

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	\$0.14

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.

- **Kotak Special Situations Fund's \$135 million investment in Sify Infinite Spaces (SIS), Sify's Data Center subsidiary, will help fund SIS' data center investments.**
- **Sify has been able to fund its infrastructure investments through a combination of debt and operational cash flow. We project the company will generate OCF of \$59 million and \$75 million in F2022 and F2023 but the investment from Kotak will allow Sify to accelerate SIS' expansion.**
- **India is in the early innings of a digital transformation and Cloud migration, which is driving strong demand for Sify's Data Center services. With Kotak's investment, Sify is in a stronger position to capitalize on the secular growth of this sector.**
- **The Kotak compulsory convertible debentures have a 6% interest rate. We lower our F2023 EPS estimates for the added expense.**
- **We maintain our price target of \$7, which is based on 12x our F2023 EBITDA estimate of \$111 million, less net debt of \$116 million.**
- **Given the company's growth potential and modest leverage of 1.0x net debt-to-EBITDA, we maintain our Moderately Risky rating.**

Kotak's financial investment... Sify Infinite Spaces (SIS), Sify's data center services subsidiary has been one of the fastest growing parts of its business with a five-year revenue CAGR of 30% from F2016 and F2021. India's digital transformation and the growing demand for public, private, and hybrid Cloud applications is driving strong demand for data center co-location services in the country. This is a massive secular trend with a long runway of growth and following last week's investment from Kotak Special Situations Fund, we think Sify is in a stronger position to capitalize on the opportunity.

...will help accelerate the growth of Sify's Data Center Business. Sify currently operates 10 data centers across 6 cities with 72 megawatts of capacity. Management has indicated they aim to add another 10 megawatts of capacity this year, but we gained a better view of

NR
Price Target: \$7
Price: \$3.60
Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$650
Enterprise Value	\$738
52-Week Range (NASDAQ)	6-1
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	266,000
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)	(\$0.46)
FCF Yield (F2023E)	-12.8%
Net Cash Per Share (F2023E)	(\$0.65)
Price to Book Value	3.6x
Return on Equity (F2023E)	10.8%
Total Debt to Capital	Nil
Interest Coverage Ratio	2.7x
Short Interest %	N/A
Short Interest Days To Cover	3.0
Russell 2000	2,443
Russell 2000 – Last 12 Months	48.6%
SIFY – Last 12 Months	224.3%



Sify Technologies Limited Sponsored ADR
Source: FactSet Prices

the company's investment plan in the Kotak press release, where it was stated the investment from Kotak will help fund Sify's current plan to develop new data centers in Mumbai, Noida, Chennai, Bangalore, and Hyderabad and investments in renewable energy sources for up to \$530 million over a multi-year period. Kotak has committed to invest up to \$135 million in Sify Infinite Spaces in the form of Compulsory Convertible Debentures, the first \$55 million of which is committed and will be called by Sify in two tranches between the close of the agreement and March 31, 2023. If needed, Sify retains an option to call the remaining \$80 million of capital between F2022 and F2025. The conversion rate of the debentures will be determined based on a multiple of SIS' EBITDA performance in the subsequent year following each draw so the exact conversion rate is unknown, but we estimate Kotak's investment will convert to 5%-8% of SIS' equity capital. Bringing in Kotak as a financial partner offers many advantages to Sify. First, the debentures are a lower cost of capital for Sify, carrying an interest rate of 6% versus the 10%-12% Sify would likely pay tapping the debt markets. Second the debentures are considered equity instruments, so the additional equity capital gives Sify greater flexibility and capacity to leverage its balance sheet as needed. Finally, we think the committed capital will increase customer confidence in Sify's ability to deliver on its existing data center projects and Sify will no longer be slowed down by the need to deal with bankers to secure funding for projects, which will allow Sify to accelerate its investment process.

Valuation	We maintain our price target of \$7 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	13.9	15.4	17.2	59.3
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	12.3	13.3	14.2	51.8
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	5.1	5.1	5.1	5.1	20.4
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	7.4	7.8	8.7	9.7	33.6
Taxes	4.8	1.4	2.4	2.3	2.4	8.5	1.7	1.6	1.8	2.2	7.3	2.2	2.3	2.2	2.4	9.1
Net income	10.8	2.6	4.0	3.9	5.6	16.1	5.1	5.5	5.9	7.4	23.8	5.1	5.5	6.6	7.3	24.4
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	\$0.03	\$0.04	\$0.04	\$0.14
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%	10.2%	10.7%	10.3%	10.4%
Net margin	3.1%	3.3%	4.4%	4.0%	5.3%	4.3%	5.1%	5.1%	5.3%	6.0%	5.4%	4.5%	4.5%	5.3%	5.2%	4.9%
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%	1.7%	(0.4%)	11.6%	(1.3%)	2.7%

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	\$24.4
D&A	35.2	43.6	49.5	59.3
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	75.5
PPE	(62.5)	(40.9)	(61.8)	(156.9)
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)	(156.9)
Proceeds (purchase) of common stock	0.1	3.8	-	-
Debt	22.9	24.1	-	30.8
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	-	30.8
FX	-	-	-	-
Net change in cash	13.0	61.0	(2.9)	(50.6)
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	30.7
FCF	14.4	66.3	(2.9)	(81.4)
FCF / share	\$0.08	\$0.37	(\$0.02)	(\$0.46)

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	24.9
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	265.5
PPE	181.6	192.3	194.6	292.1
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	584.7
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
Compulsory convertible debentures	-	-	-	30.8
Other	-	-	-	-
Other	-	-	-	-
Total liabilities	352.4	361.5	376.1	423.9
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 defecit	(157.8)	(134.2)	(110.7)	(86.3)
Total stockholders' equity	174.6	202.5	216.2	240.8
Total liabilities and equity	527.0	564.1	592.4	664.7
ROE	6.3%	8.1%	11.3%	10.8%
Total Debt-to-capital	41.7%	41.7%	40.1%	37.5%
Net debt-to-TTM EBITDA	1.62x	0.79x	0.68x	1.04x
Cash (debt) per share	(\$0.58)	(\$0.35)	(\$0.36)	(\$0.65)

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

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

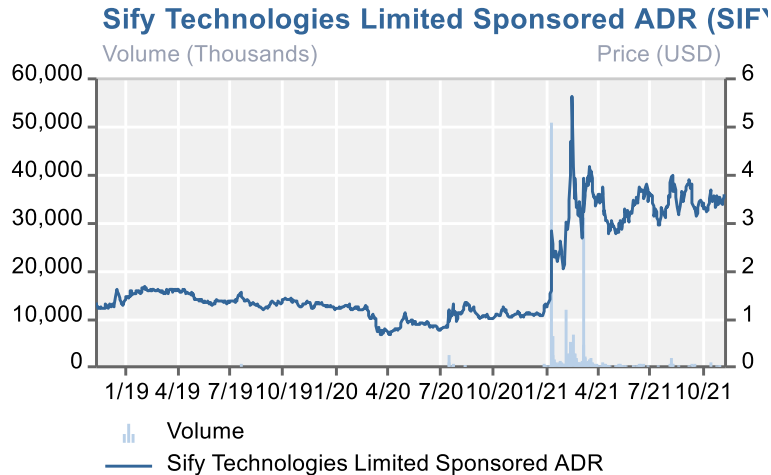
Appendix
Required Disclosures

Required Disclosures

Sify Technologies Limited Sponsored ADR (SIFY-\$3.60) 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	



Source: FactSet Prices

Valuation	We maintain our price target of \$7 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	

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