

SIFY LTD
Form 6-K
August 24, 2004

Table of Contents

**United States
Securities and Exchange Commission**

Washington, DC 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the Securities Exchange Act of 1934
For the quarter ended June 30, 2004

Commission File Number 000-27663

SIFY LIMITED

(Exact name of registrant as specified in its charter)

Not Applicable
(Translation of registrant's name into English)

Republic of India
(Jurisdiction of incorporation or organization)

Tidel Park, 2nd Floor
No. 4, Canal Bank Road, Taramani, Chennai 600 113 India
(91) 44-2254-0777
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20F Form 40 F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby
furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.
Yes No

If Yes is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b). Not
applicable.

Sify Limited is incorporating by reference the information and exhibits set forth in this Form 6-K into its
registration statements on Form S-8 (Registration Nos. 333-101322 and 333-107938) and on Form F-3 (Registration
No.333-101915).

Table of Contents

Currency of Presentation and Certain Defined Terms

Unless the context otherwise requires, references herein to we, us, the company or Sify are to Sify Limited (formerly known as Satyam Infoway Limited), a limited liability company organized under the laws of the Republic of India. References to U.S. or the United States are to the United States of America, its territories and its possessions. References to India are to the Republic of India. Until December 2002, we were a majority-owned subsidiary of Satyam Computer Services Limited (Satyam Computer Services), a leading Indian information technology services company which is traded on the New York Stock Exchange and the major Indian stock exchanges. In January 2003, we changed the name of our company from Satyam Infoway Limited to Sify Limited. Satyam is a trademark owned by Satyam Computer Services, which has licensed the use of the Satyam trademark to us subject to specified conditions. Sify.com, Sify, Sify iway, SifyOnline, SatyamOnline, SatyamNet, satyamonline.com and Sat are trademarks used by us for which we have registration applications pending in India. All other trademarks or tradenames used in this quarterly report are the property of their respective owners.

In this report, references to \$, US\$, Dollars or U.S. dollars are to the legal currency of the United States, references to GBP are to the legal currency of United Kingdom and references to Rs., rupees or Indian Rupees are to the legal currency of India. References to a particular fiscal year are to our fiscal year ended March 31 of that year.

For your convenience, this report contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars contained in this report have been based on the noon buying rate in the City of New York on June 30, 2004 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on June 30, 2004 was Rs.45.99 per \$1.00.

Our financial statements are prepared in Indian rupees and presented in accordance with United States generally accepted accounting principles, or U.S. GAAP. In this report, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

Information contained in our websites, including our principal corporate website, www.sifycorp.com, is not part of this report.

Forward-looking Statements May Prove Inaccurate

IN ADDITION TO HISTORICAL INFORMATION, THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE REFLECTED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO, THOSE DISCUSSED IN THE SECTION ENTITLED ITEM 2 OPERATING AND FINANCIAL REVIEW AND PROSPECTS RISKS RELATED TO OUR BUSINESS AND ELSEWHERE IN THIS REPORT. YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS, WHICH REFLECT MANAGEMENT'S ANALYSIS ONLY AS OF THE DATE OF THIS REPORT. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS REPORT AND IN OUR PERIODIC REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE SEC) FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, WWW.SEC.GOV.

TABLE OF CONTENTS

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS

EQUITY AND COMPREHENSIVE INCOME

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Item 2. Operating and Financial Review and Prospects

Signatures

Table of Contents**Item 1. Financial Statements****SIFY LIMITED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**
(in thousands, except share data and as otherwise stated)

	<u>As at March 31,</u>	<u>As at June 30,</u>	
	<u>2004</u>	<u>2004</u>	<u>2004</u>
		<u>(Unaudited)</u>	
ASSETS			
Current assets:			
Cash and cash equivalents	Rs. 1,325,803	Rs. 1,340,844	\$ 29,155
Cash restricted	101,587	30,891	672
Accounts receivable	493,980	465,348	10,118
Due from officers and employees		1,197	26
Due from related parties	13,030	15,114	329
Inventories	20,759	16,226	353
Prepaid expenses	106,957	136,377	2,965
Other current assets	123,571	106,921	2,325
	<u>2,185,687</u>	<u>2,112,918</u>	<u>45,943</u>
Total current assets			
Cash restricted	10,146	110,245	2,397
Property, plant and equipment-net	1,249,798	1,214,513	26,409
Goodwill and other intangible assets	125,622	113,965	2,478
Investments in affiliated companies	140,508	152,543	3,317
Other assets	87,312	87,144	1,895
	<u>Rs. 3,799,073</u>	<u>Rs. 3,791,328</u>	<u>\$ 82,439</u>
Total assets			
LIABILITIES AND STOCKHOLDERS			
EQUITY			
Current liabilities:			
Current installments of capital lease obligations	5,851	5,955	130
Trade accounts payable	220,322	203,370	4,422
Accrued liabilities	317,228	353,119	7,678
Deferred revenue	341,953	347,694	7,560
Due to officers and employees	326	225	5
Advances from customers	83,670	80,512	1,751
Other current liabilities	56,182	54,694	1,189
	<u>Rs. 3,799,073</u>	<u>Rs. 3,791,328</u>	<u>\$ 82,439</u>

Total current liabilities	1,025,532	1,045,569	22,735
Capital lease obligations, excluding current installments	5,151	4,826	105
Other liabilities	51,127	51,826	1,127
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,081,810	1,102,221	23,967
	<u> </u>	<u> </u>	<u> </u>
Minority interest	1,595	1,595	35
Stockholders equity			
Common stock, Rs.10 par value; 37,500,000 equity shares authorized; Issued and outstanding: 34,900,993 shares as of March 31,2004 and 35,040,345 shares as of June 30, 2004.	349,010	350,403	7,619
Additional paid-in capital	14,490,037	14,511,333	315,533
Deferred compensation – employee stock offer plan	(14,326)	(10,432)	(227)
Accumulated deficit	(12,109,053)	(12,163,792)	(264,488)
	<u> </u>	<u> </u>	<u> </u>
Total stockholders equity	2,715,668	2,687,512	58,437
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and stockholders equity	Rs. 3,799,073	Rs. 3,791,328	\$ 82,439
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**SIFY LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except share data and as otherwise stated)**

	Quarter ended June 30,		
	2003	2004	
Revenues	Rs. 588,006	Rs. 764,790	\$ 16,629
Revenue from related parties	13,019	13,047	284
Total revenues	601,025	777,837	16,913
Cost of revenues	320,844	431,244	9,377
Selling, general and administrative expenses	290,070	311,550	6,774
Provision for doubtful receivables and advances	38,076	13,052	284
Depreciation	121,006	119,664	2,602
Amortisation of intangible assets	14,044	11,657	253
Amortisation of deferred stock compensation expense	8,835	3,665	80
Foreign exchange (gain) / loss	14,099	(33,248)	(723)
Total operating expenses	806,974	857,584	18,647
Operating loss	(205,949)	(79,747)	(1,734)
Other income, net	12,772	12,973	282
Loss before taxes, equity in losses of affiliates and minority interest	(193,177)	(66,774)	(1,452)
Equity in (losses) / profits of affiliates	(13,514)	12,035	262
Minority interest	(462)		
Losses before income taxes	(207,153)	(54,739)	(1,190)
Taxes			
Net loss	Rs. (207,153)	Rs. (54,739)	\$ (1,190)
Net loss per share	(6.18)	(1.56)	(0.03)
Weighted equity shares used in computing loss per equity share	33,501,588	35,007,617	35,007,617

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**SIFY LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in thousands, except share data and as otherwise stated)

	Quarter ended June 30,		
	2003	2004	2004
Net loss from continuing operations	Rs. (207,153)	Rs. (54,739)	\$ (1,190)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation, amortization of intangible assets and deferred stock compensation	143,885	134,986	2,935
Equity in losses/(profits) of affiliates	13,514	(12,035)	(262)
Profit on sale of investments	(3,725)		
Loss on sale of property, plant and equipment	56	132	3
Provision for doubtful receivables and advances	38,076	13,052	284
Minority interest	462		
Effect of exchange rate changes on cash	12,763	(32,457)	(706)
Others	2,407	(824)	(18)
<i>Changes in assets and liabilities:</i>			
Accounts receivable	(37,618)	15,581	339
Due from officers and employees	(740)	2,413	52
Due from related parties	5,982	(2,084)	(45)
Inventories	12,833	5,357	116
Prepaid expenses	(14,649)	(29,420)	(640)
Other assets	(50,557)	13,107	285
Trade accounts payable and accrued liabilities	30,172	14,651	319
Deferred revenue	27,929	5,741	125
Advances from customers	9,165	(3,158)	(69)
Other liabilities	(11,075)	(789)	(17)
Net cash provided by / (used in) continuing operations	Rs. (28,273)	Rs. 69,514	\$ 1,511
Cash flows from investing activities:			
Expenditure on property, plant and equipment	(54,712)	(79,896)	(1,737)
Proceeds from sale of property, plant and equipment	3,055	1,200	26
Expenditure on investment in affiliates	(2,258)		
Net movement in cash restricted	13,266	(29,403)	(639)
Purchase consideration for acquisition, net of cash	(2,330)		
Proceeds from sale of investments	5,694		
Net cash used in investing activities	Rs. (37,285)	Rs. (108,099)	\$ (2,350)

Cash flows from financing activities:

Principal payments under capital lease obligations	(2,060)	(1,749)	(38)
Net proceeds from issuance of common stock	83,210	22,918	498
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by financing activities	Rs. 81,150	Rs. 21,169	\$ 460
	<u> </u>	<u> </u>	<u> </u>
Effect of exchange rate changes on cash	(12,763)	32,457	706
Net increase in cash and cash equivalents	2,829	15,041	327
Cash and cash equivalents at the beginning of the year	897,596	1,325,803	28,828
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the year	Rs. 900,425	Rs. 1,340,844	\$ 29,155
	<u> </u>	<u> </u>	<u> </u>

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents**SIFY LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND
COMPREHENSIVE INCOME**

(in thousands, except share data and as stated otherwise)

	Common Stock Shares	Common Stock Par Value	Additional paid In capital	Comprehensive income	Deferred compensation - employee stock offer plan	Accumulated deficit	Total Stockholders equity
Balance as of March 31, 2004	34,900,993	Rs.349,010	Rs. 14,490,037		Rs.(14,326)	Rs.(12,109,053)	Rs.2,715,668
Issue of common stock (net of expenses)	139,352	1,393	21,525				22,918
Compensation related to stock option grants					3,894		3,894
Amortization of compensation related to stock option grants, net of forfeitures			(229)				(229)
Comprehensive income							
Net loss				(54,739)		(54,739)	(54,739)
Comprehensive income				Rs.(54,739)			
Balance as of June 30, 2004	35,040,345	Rs.350,403	Rs. 14,511,333		Rs.(10,432)	Rs.(12,163,792)	Rs.2,687,512
Balance as of June 30, 2004	35,040,345	7,619	315,533		(227)	(264,488)	58,437

(in US\$)

See accompanying notes to unaudited condensed consolidated financial statements

Table of Contents

SIFY LIMITED AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(In Rupees thousands, except share data and as otherwise stated)

1. Description of business

Sify Limited (Sify) together with its subsidiaries (collectively referred to as the Company) and its affiliates is engaged in providing various Internet services, such as corporate network/data services, Internet access services, online portal services and content offerings.

2. Summary of significant accounting policies

a. Basis of preparation of financial statements

The accompanying condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) in Indian Rupees (Rs.), the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the quarter ended June 30, 2004 have been translated into United States dollars at the noon buying rate in New York City on June 30, 2004 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US\$1 = Rs.45.99. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or at any other rate on June 30, 2004 or at any other date.

b. Interim Information

Interim information presented in the condensed consolidated financial statements has been prepared by the management without audit and, in the opinion of management, includes all adjustments of a normal recurring nature that are necessary for the fair presentation of the financial position, results of operations, and cash flows for the periods shown, in accordance with US GAAP. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s annual report on Form 20-F for the fiscal year ended March 31, 2004.

3. Cash and cash equivalents

Cash and cash equivalents as on June 30, 2004 amounted to Rs.1,340,844 (Rs.1,325,803 as on March 31, 2004). This excludes restricted cash, included in current assets, of Rs.30,891 (Rs.101,587 as on March 31, 2004) and restricted cash, included in non- current assets, of Rs.110,245 (Rs.10,146 as on March 31, 2004) representing deposits held under lien against bank guarantees given by the Company towards future performance obligations and letters of credit given to suppliers of the Company against purchase obligations.

The restricted cash balances in current and non-current assets represent deposits earmarked against financial guarantees and letters of credit procured in the course of business, including guarantees given to The Telegraph Authority of Rs.10,000 and Videsh Sanchar Nigam Limited of Rs.21,549 and letter of credits for Axxcelera Broadband Wireless Inc. of Rs.20,527 and JQ Network of Rs.14,606. .

4. E Alcatraz Consulting Private Limited

The Company acquired the business of E Alcatraz Consulting Private Limited (EAP) for cash on March 1, 2004. As a result of this acquisition, the Company may offer value-added consulting services, such as security risk assessment, security policy and procedure consulting and Managed Security Services, which would provide end to end security solutions to the Company s corporate clients. The purchase consideration included a waiver of a loan extended to EAP for Rs.2,400 and the balance amounts will be paid in agreed installments by September 30, 2004.

Edgar Filing: SIFY LTD - Form 6-K

The total purchase price has been preliminarily allocated to the acquired assets and assumed liabilities as follows:

Purchase price	Rs.32,630
Direct transaction costs	125
	<hr/>
	32,755
Allocated to:	
Net current assets	2,909
Tangible assets	762
Intangible assets pending final allocation	29,084
	<hr/>
	Rs.32,755
	<hr/>

The purchase consideration has been allocated on a preliminary basis to the assets acquired and liabilities assumed as of the date of acquisition based on management's estimates. However, certain independent appraisals reports are yet to be received by the Company. Finalization of the purchase price allocation, which is expected to be completed within one year from the date of acquisition, may result in certain adjustments to the above-reflected allocations. As the purchase price allocation is

Table of Contents

preliminary and as management does not expect the fair values of the amortizable intangible assets to be material, no amortization expense and deferred tax liabilities have been recognized as part of the purchase price allocation.

5. Goodwill and intangibles

At June 30, 2004, the Company's goodwill and other intangible assets amounted to Rs.14,595 and Rs.99,370, respectively.

Acquired and amortized intangible assets

	Weighted average life	As at June 30, 2004	
		Gross carrying amount	Accumulated amortization
Technical know how fees	4.89	Rs. 90,313	Rs. 57,834
Portals and web content	5.00	100,360	71,552
Customer contracts and others	3.00	56,084	18,001
Total		Rs.246,757	Rs.147,387

The aggregate amortization expense for the quarter ended June 30, 2004 was Rs.11,657.

Estimated amortization expense

For the year ending March 31,	
2005	Rs.46,108
2006	29,657
2007	6,158
2008	20

The Company has stopped amortizing goodwill pursuant to SFAS No. 142, *Accounting for Goodwill and Other Intangible Assets*. The Company has not recognized any impairment of goodwill during the years ended March 31, 2003 and 2004.

6. Employee Stock Options

The Company has adopted pro forma disclosure provisions of SFAS No. 123, *Accounting for Stock Based Compensation*, and SFAS No. 148, *Accounting for Stock Based Compensation - Transition and Disclosure*. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock based employee compensation.

	Quarter ended June 30,	
	2003	2004
Net loss as reported	Rs.(207,153)	Rs.(54,739)

Edgar Filing: SIFY LTD - Form 6-K

Add: Stock based compensation expense included in reported net loss	8,835	3,665
Less: Stock based compensation expense determined under fair value method	<u>(23,266)</u>	<u>(25,379)</u>
Pro forma net loss	<u>Rs.(221,584)</u>	<u>Rs.(76,453)</u>
Loss per share:		
Basic and diluted reported	(6.18)	(1.56)
Basic and diluted pro forma	(6.61)	(2.18)

8

Table of Contents

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	Quarter ended June 30,	
	2003	2004
Dividend yield		131% to
Expected volatility	140%	157.3% 4.50% to
Risk-free interest rate	5.25%	5.25%
Expected term	12-36 months	12-36 months

7. Gratuity

The Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering all employees. The Gratuity Plan commenced on April 1, 1997. The plan provides a lump sum payment to vested employees at retirement or termination of employment an amount based on the respective employee's salary and the years of employment with the Company. The Company provides the gratuity benefit through annual contributions to a fund managed by the Life Insurance Corporation of India (LIC). Under this scheme, the settlement obligation remains with the Company, although the LIC administers the scheme and determines the contribution premium required to be paid by the Company. The Gratuity Plan is accounted for in accordance with SFAS No. 87, *Employees' Accounting for Pensions*.

The following table sets out the funded status of the Gratuity Plan and the amounts recognized in the Company's balance sheet.

	Quarter ended June 30, 2003	Quarter ended June 30, 2004
Accumulated benefit obligation	Rs. 7,009	Rs. 10,331
Change in projected benefit obligation		
Projected benefit obligation at the beginning of the year	Rs. 11,659	Rs. 16,093
Service cost	1,148	1,422
Interest cost	233	275
Divestiture / acquisition		
Actuarial (gain)/loss	658	521
Projected benefit obligation at the end of the year	Rs. 13,698	Rs. 18,311
Change in plan assets		
Fair value of plan assets at the beginning of the year	3,720	4,436
Actual return on plan assets	68	65
Employer contributions		
Acquisition		
Benefits paid from plan assets		

Fair value of plan assets at the end of the year	3,788	4,501
Funded status of the plans	9,910	13,810
Unrecognized transition obligation (asset)		
Unrecognized prior service cost (benefit)		
Unrecognized net actuarial gain/(loss)	<u>1,220</u>	<u>2,423</u>
Accrued benefit cost	<u>Rs. 11,130</u>	<u>Rs. 16,233</u>
	Quarter	Quarter
	ended	ended
	June 30, 2003	June 30, 2004
	<u> </u>	<u> </u>
The components of net gratuity costs are reflected below:		
Service cost	Rs. 1,148	Rs. 1,422
Interest cost	232	275
Expected returns on plan assets	(87)	(136)
Amortization		
Recognized net actuarial (gain)/ loss	<u>(14)</u>	<u>(32)</u>
Net gratuity costs	<u>Rs. 1,279</u>	<u>Rs. 1,529</u>

Table of Contents

	Quarter ended June 30, 2003	Quarter ended June 30, 2004
	<hr/>	<hr/>
Principal actuarial assumptions:		
Discount rate	8%	7%
Long-term rate of compensation increase	7%	6%
Rate of return on plan assets	7.5%	6%

The employer's best estimate of contributions expected to be paid to the plan during the year ending March 31, 2005 amounts to Rs.10,000. Further, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are:

For the year ending March 31,

2005