

SIFY LTD
Form 20-F
July 03, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended March 31, 2003.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to

Commission file number 000-27663

Sify Limited

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation at 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) 44-2254-0770
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act: None

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Securities registered or to be registered pursuant to Section 12(g) of the Act: American Depositary Shares, each representing one Equity Share, par value Rs.10 per share

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

33,838,392 Equity Shares were issued and outstanding as of May 31, 2003

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow

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Currency of Presentation and Certain Defined Terms

Unless the context otherwise requires, references in this annual report to we, us, the company, Sify or Satyam Infoway are to Sify 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, 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, Satyam.Net, satyamonline.com and Satyam iway are trademarks used by us for which we have registration applications pending in India. All other trademarks or tradenames used in this annual report are the property of their respective owners.

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

For your convenience, this annual 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 annual report, all translations from Indian rupees to U.S. dollars contained in this annual report have been based on the noon buying rate in the City of New York on March 31, 2003, the last business day of March 2003, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2003 was Rs. 47.53 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 annual report, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

The International Data Corporation market data presented in this annual report shows International Data Corporation's estimates derived from a combination of vendor, user and other market sources and therefore may differ from numbers claimed by specific vendors using different market definitions or methods. There can be no assurance that the projected amounts will be achieved.

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

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Forward-Looking Statements May Prove Inaccurate

IN ADDITION TO HISTORICAL INFORMATION, THIS ANNUAL 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 3. KEY INFORMATION RISK FACTORS, ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS AND ELSEWHERE IN THIS ANNUAL 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 ANNUAL REPORT. IN ADDITION, YOU SHOULD CAREFULLY REVIEW THE OTHER INFORMATION IN THIS ANNUAL REPORT AND IN OUR QUARTERLY REPORTS AND OTHER DOCUMENTS FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, OR SEC, FROM TIME TO TIME. OUR FILINGS WITH THE SEC ARE AVAILABLE ON ITS WEBSITE, WWW.SEC.GOV.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

You should read the following selected consolidated historical financial data in conjunction with our financial statements and the related notes and Item 5. Operating and Financial Review and Prospects, all of which are included elsewhere in this annual report. The statement of operations data for the fiscal years ended March 31, 1999, 2000, 2001, 2002 and 2003 and the balance sheet data as of March 31, 1999, 2000, 2001, 2002 and 2003 are derived from our audited consolidated financial statements which have been audited by KPMG India, independent accountants. Our financial statements are prepared in Indian rupees and presented in accordance with U.S. GAAP for and as of the fiscal years ended March 31, 1999, 2000, 2001, 2002 and 2003. Financial statements for the year ended March 31, 2003 have been translated into U.S. dollars for your convenience. Significant accounting policies used in the preparation of our financial statements are summarized in Note 3 to our consolidated financial statements appearing elsewhere in this annual report. Please see Item 18. Financial Statements.

In addition, the selected consolidated historical financial data presented herein includes transitional disclosures pertaining to adoption of SFAS 142, Goodwill and other Intangible Assets, for the year ended March 31, 2001, 2002 and 2003.

The selected consolidated historical financial data includes a presentation of EBITDA from continuing operations. As we calculate it, EBITDA from continuing operations, represents earnings (loss) from continuing operations before depreciation and amortization, interest income and expense and income tax expense (benefit). EBITDA is neither an Indian GAAP measure nor a U.S. GAAP measure and should not be considered in isolation or as an alternative to net income as an indicator of operating performance or as an alternative to cash flow as a measure of liquidity. Our presentation below also includes a reconciliation of EBITDA from continuing operations to net loss, which we believe to be the most comparable financial measure under U.S. GAAP. EBITDA from continuing operations is presented because it is a basis upon which our management assesses our financial performance and because we believe some investors find it to be a useful tool for measuring a company's ability to fund operating obligations and capital expenditure. Investors evaluating our financial performance or analyzing our discounted cash flows based on EBITDA from continuing operations should consider financing activities and non-recurring charges that are not included in the calculation of EBITDA. Our calculation includes significant charges recorded to reflect the impairment of goodwill. Investors should also review carefully Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report for further information regarding the underlying financial performance of our company. While EBITDA is frequently reported by many companies as a supplemental measure of operations, it is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation.

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	1999	2000	Fiscal year ended March 31		2003	2003	
			2001	2002		U.S. Dollars ⁽²⁾	
			Indian Rupees				
			(In thousands, except share and per share data)				
Statement of Operations							
Data:							
Revenues	103,344	618,467	1,200,833	1,493,636	1,862,585	39,188	
Initial services charges			19,691	66,652	97,270	2,046	
Satyam Computer Services Limited		4,258	4,957	17,200	34,345	723	
Satyam Computer Services Limited							
Total Revenue	103,344	622,725	1,225,481	1,577,488	1,994,200	41,957	
Cost of revenues (excluding depreciation and amortization)	(63,651)	(281,431)	(1,177,106)	(1,192,671)	(1,264,101)	(26,596)	
Gross profit (excluding depreciation and amortization)	39,693	341,294	48,375	384,817	730,099	15,361	
Operating expenses:							
Selling, general and administrative expenses (including provision for doubtful receivables and advances)	200,213	650,222	1,887,324	1,962,467	1,791,336	37,688	
Acquisition expenses				20,000			
Amortization of goodwill		115,992	931,967	4,420,644			
Impairment of goodwill					246,999	5,197	
Amortization of deferred stock compensation expense	69	20,627	61,451	9,686	57,729	1,215	
Foreign exchange (gain)/loss	(615)	(5,414)	(162,136)	(44,520)	18		
Total operating expenses	199,667	781,427	2,718,606	6,368,277	2,096,082	44,100	
Operating loss	(159,974)	(440,133)	(2,670,231)	(5,983,460)	(1,365,983)	(28,739)	
Other (expense)/income, net	(27,402)	71,852	242,368	32,711	52,948	1,114	
Loss before equity in losses of affiliates, income taxes and minority interest	(187,376)	(368,281)	(2,427,863)	(5,950,749)	(1,313,035)	(27,625)	
Equity in losses of affiliates			(263,178)	(1,225,444)	(26,061)	(548)	
Loss before income taxes and minority interest	(187,376)	(368,281)	(2,691,041)	(7,176,193)	(1,339,096)	(28,173)	
Income taxes		1,478	(1,707)		(2,856)	(60)	
Minority interest		1,799	11,137	17,928	12,564	264	
Loss from continuing operations	(187,376)	(365,004)	(2,681,611)	(7,158,265)	(1,329,388)	(27,969)	
Discontinued operations							
Income / (loss) from discontinued operations ⁽³⁾		(16,893)	172,581	(125,373)			
Profit on sale of discontinued operations, net of direct costs				81,121			
Net loss	(187,376)	(381,897)	(2,509,030)	(7,202,517)	(1,329,388)	(27,969)	
Net profit/ (loss) per equity share continuing operations	(17.31)	(19.68)	(117.34)	(308.59)	(51.15)	(1.08)	
discontinuing operations		(0.91)	7.55	(1.91)			
Net loss per share ⁽⁴⁾	(17.31)	(20.59)	(109.79)	(310.50)	(51.15)	(1.08)	
Weighted average equity shares used in computing net loss per equity share	10,824,826	18,545,399	22,852,600	23,196,428	25,988,095	25,988,095	

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	1999	2000	Fiscal year ended March 31		2003	2003
			2001	2002		U.S. Dollars
			Indian Rupees			
			(In thousands, except share and per share data)			
Transitional disclosures pertaining to adoption of SFAS 142 Goodwill and other Intangible Assets						
Reported net loss	(187,376)	(381,897)	(2,509,030)	(7,202,517)	(1,329,388)	(27,969)
Less: Goodwill amortization		115,992	931,967	292,964		
Less: Equity goodwill amortization			201,332	75,210		
Adjusted net loss	(187,376)	(265,905)	(1,375,731)	(6,834,343)	(1,329,388)	(27,969)
Reported net loss per share	(17.31)	(20.59)	(109.79)	(310.50)	(51.15)	(1.08)
Less: Goodwill amortization		6.25	40.78	12.63		
Less: Equity goodwill amortization			8.81	3.24		
Adjusted net loss per share	(17.31)	(14.34)	(60.20)	(294.63)	(51.15)	(1.08)
Balance Sheet Data:						
Cash and cash equivalents	103,403	7,284,568	1,414,205	658,111	897,596	18,885
Total assets	454,888	10,634,004	11,501,884	4,146,274	3,700,387	77,854
Long-term debt, including current installments	259,256	215,537				
Total stockholders equity / (deficit)	67,617	9,927,840	10,588,336	3,394,113	2,888,696	60,776
Other Financial Data:						
EBITDA from continuing operations ⁽⁵⁾	(111,068)	(191,979)	(1,312,887)	(6,221,893)	(741,589)	(15,603)
Add: Depreciation and amortization	49,162	247,190	1,601,430	966,626	607,183	12,774
Add: Interest and income tax	27,146				2,856	60
Income/(loss) from discontinued operations		16,893		125,373		
	76,308	264,083	1,601,430	1,091,999	610,039	12,834
Less: Interest and income tax		74,165	232,706	30,254	22,240	468
Income/(loss) from discontinued operations			172,581			
Profit on sale of discontinued operations				81,121		
		74,165	405,287	111,375	22,240	468
Net (loss)	(187,376)	(381,897)	(2,509,030)	(7,202,517)	(1,329,388)	(27,969)

Notes

1. Certain prior-year data has been reclassified to conform to the current year presentation.
2. Convenience translation to US Dollars done at the exchange rate on March 31, 2003 of Rs 47.53 / dollar, 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 this rate or at all.
3. There is no goodwill associated with discontinued operations and no extraordinary items.
4. Reference to shares and per share amounts refer to our equity shares. Our outstanding shares include shares held by a depository representing equity shares underlying our ADSs. Effective September 24, 2002, one ADS represented one equity share. Our 1-for-4 reverse ratio change on September 24, 2002 did not have any effect on our equity shares or per equity share amounts, as the underlying shares representing ADSs were unchanged.
5. EBITDA from continuing operations represents earnings (loss) from continuing operations before interest, taxes, depreciation and amortization, and gain on sale of discontinued operations.

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The following table sets forth, for each of the months indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York on the last day of each month during each of such months for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Month	High		Low	
December 2002	Rs.	48.55	Rs.	47.66
January 2003		48.23		47.60
February 2003		48.04		47.49
March 2003		47.91		47.39
April 2003		47.57		47.18
May 2003		47.45		46.68

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York on the last day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Fiscal Year Ended March 31,	Period End	Average	High	Low
1999	42.44	42.08	43.68	39.25
2000	43.63	43.34	43.82	42.20
2001	46.85	45.70	46.91	43.56
2002	48.83	47.71	48.91	46.58
2003	47.53	48.49	49.14	47.39

Capitalization and indebtedness

Not applicable.

Reasons for the offer and use of proceeds

Not applicable.

Risk Factors

Any investment in our ADSs involves a high degree of risk. You should consider carefully the following information about these risks, together with the other information contained in this annual report, before you make an investment decision regarding our ADSs. If any of the following risks actually occurs, our company could be seriously harmed. In any such case, the market price of our ADSs could decline, and you may lose all or part of the money you paid to buy our ADSs.

Risks Related to Sify Limited

Because we commenced operation of our private data network business in April 1998 and launched our Internet portal website in November 1998, it is difficult to evaluate our company based on our historical results of operations.

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We commenced operation of our private data network business in April 1998 and launched our Internet service provider operations and Internet portal website in November 1998. Accordingly, we have a limited operating history to evaluate our business and during this period our business has not been profitable. You must consider the risks and difficulties frequently encountered by companies in the early stages of development, particularly companies in the new and rapidly evolving Internet service markets. These risks and difficulties include our ability to:

- continue to develop and upgrade our technology;
- maintain and develop strategic relationships with business partners;
- offer compelling online services and content; and

promptly address the challenges faced by early stage companies, which do not have an experience or performance base to draw on.

Not only is our operating history short, but we have determined to compete in three businesses that we believe are complementary. These three businesses are corporate network/data services, Internet access services and online portal and content offerings. In February 2002, we divested a fourth business (software services) to our former majority stockholder, Satyam Computer Services. We do not yet know whether our three remaining businesses will prove complementary. We cannot assure you that we will successfully address the risks or difficulties described above. Failure to do so could lead to an inability to attract and retain corporate customers for our network services and subscribers for our Internet services as well as the loss of advertising revenues.

For the year ended March 31, 2003 we incurred a net loss of Rs.1,329.4 million (\$28.0 million). As of March 31, 2003, we had an accumulated deficit of approximately Rs.11,737.8 million (\$247.0 million). We anticipate incurring additional losses in the future because our business plan, which is unproven, calls for additional corporate customers and subscribers to attain profitability.

Since our founding, we have not been profitable and have incurred significant losses and negative cash flows. For the year ended March 31, 2003 we incurred a net loss of Rs.1,329.4 million (\$28.0 million). As of March 31, 2003, we had an accumulated deficit of approximately Rs.11,737.8 million (\$247.0 million). We expect to continue to incur operating losses as we expand our services and advertise and promote our brand. Our business plan assumes that businesses in India will demand private network and related services. Our business plan also assumes that consumers in India will be attracted to and use Internet access services and content available on the Internet in increasing numbers. This business model is not yet proven in India, and we cannot assure you that we will ever achieve or sustain profitability or that our operating losses will not increase in the future.

During fiscal 2003, our highest operational priority was to reduce cash burn incurred to build our company and infrastructure to support our rapid growth, which has now stabilized. Although we have significantly reduced our cash burn over the last eight quarters and believe that these represent permanent reductions, we do not know whether these measures, or other measures which we may undertake in the future, will be successful in reducing negative cash flow in future periods.

As a result of its former control by the Government of India, VSNL has established relationships with international bandwidth suppliers and a large customer base, which provide VSNL with a competitive advantage over our company.

VSNL is a provider of international telecommunications services in India that, until recently, was controlled by the Government of India. While VSNL was controlled by the Government of India, it had a number of significant competitive advantages over our company, including direct access to network infrastructure and greater financial resource