



RESEARCH REPORT

17th July 2023

ALLIED DIGITAL SERVICES LIMITED

NSE : ADSL

Sector: I.T. SERVICES

BSE: 532875

View - BUY

CMP : Rs. 128

Target Price: Rs 213 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Allied Digital Services Limited (ADSL) was established in 1984 & was later converted in to public limited company in 2007. ADSL is an IT services company providing services of designing, developing, deploying digital solutions, and delivering end-to-end IT infrastructure services, Enterprise applications, and Integrated solutions. ADSL has a direct presence in India, USA, UK, Singapore, Australia Ireland, China, Japan & Brazil & revenues from global customers accounts for about 75% of total revenues and 25% comes from domestic market.

INVESTMENT HIGHLIGHTS

Strong Operating Financial Performance in FY23 –

ADSL reported a strong operating set of FY23 numbers with net sales at Rs 660 crs as compared to a revenue of Rs 480 crs last year, with EBIDTA placed at Rs 88 crs from Rs 70 crs last year with PAT placed at Rs 53 crs in FY23 from continued business from Rs 37 crs last year (Excluding exceptional income). Cash Flow from Operations in FY23 stood at Rs 47 crs vs Rs 15 crs last year. ADSL booked an exceptional one time loss of Rs 46.85 crs (net of taxes) in FY23 on its discontinued IT hardware business

ADSL has restructured its business in a transformative way –

Cloud services, cybersecurity, smart city solutions, infrastructure management services, software solutions, and workplace management services are the current six type of service offerings by ADSL

ADSL started these initiatives from FY2020 onwards as the management realized that the industry will prefer the cloud migration was undergoing a massive change to cloud. Over the years, ADSL has gained tremendous expertise in public clouds such as AWS, Azure, and GCP to implement hybrid cloud models for enterprises.

ADSL is also regarded as a Master Systems Integrator, a pioneer, and a market leader for smart city solutions. Making the whole cities of Pune and PCMC digital in 2015, was the first step toward creating the first safe/smart city. The entire city is being watched over by a top-notch, cutting-edge command and control centre (CCC). ADSL has been awarded smart city projects in Amritsar, Jalandhar, Sultanpur Lodhi, Pune, Pimpri Chinchwad, Kalyan Dombivali, Aurangabad, Bidkin, Rajkot, Solapur, Jaipur, & Lucknow

KEY DATA

FACE VALUE	Rs	5.00
DIVD YIELD %		0.96
52 WK HI/LOW		145/72
NSE CODE		ADSL
BSE CODE		532875
MARKET CAP	RS	701 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	53%
BANKS, MFs & DII	-	%
FII/Others	-	%
PUBLIC	-	47%

KEY FUNDAMENTALS

YE	FY23	FY24	FY25
Rev Gr%	36	20	25
EBIDTA Gr%	26	27	29
PAT Gr%	43	30	50
EPS Gr%	42	32	50
EPS (Rs)	9.66	12.76	19.15
ROE %	10	12	16
ROCE %	13	15	18
EV/EBIDTA(x)		6	4
P/E (x)		10	7

ADSL Group Profile –

Allied Digital Services Limited was promoted by Mr Nitin Shah who enjoys over 40 years of experience in the IT Industry & has been a commercial innovator, cultural inspiration, and entrepreneurial icon. His passionate perfectionism, enthusiastic commitment, piercing dedication and vision, is embedded in the DNA of Allied Digital Services today. He is assisted by Mr Paresh Shah a certified enterprise architect, & having set up practice in Cloud Computing, Analytics and Automation. Mr Nehal Shah (Mr Nitin Shah's son) is the ED & has been leading strategic and operational governance processes of the business, as a member of the Executive Management Team.

ADSL has subsidiaries in eight different countries and operates in more than 70 nations. A skilled and knowledgeable senior management team, adequately supported by a solid line of mid-level managers, oversees the group's activities. Over the years, ADSL has built solid relationships with reputable clients and suppliers thanks to the management's significant experience. With an established track record and knowledgeable management ADSL, which was founded in 1984, has a well-established track record of operation spanning almost four decades in the IT services sector

ADSL's Business Model includes –

Cloud Services –

There is a megatrend to move technology platform from on premises to cloud and from a CAPEX model to OPEX model, in this new trend one must pay on use basis which reduces CAPEX costs, Cloud technologies are very robust and mature now hence there is a mad rush to move most business to Cloud, Cloud technologies have also changed in an unprecedented way rapidly by creating Cloud-native platform.

Over the years, Allied Digital has gained tremendous expertise in public clouds such as AWS, Azure, and GCP to implement hybrid cloud models for enterprises

Cyber-security –

All are now vulnerable to cyber threats due to virtualization under Cloud and WFH. By developing the most recent and highly sophisticated assaults, like ransomware, threat actors are quickly expanding and stealing money and Large and MSME businesses are not exempt.

This has opened up tremendous opportunity for IT organizations like ADSL to counteract these risks by using a variety of solutions, such as consultancy audits, cybersecurity implementation, and managed security services from Security Operations Centers (SOC)

By anticipating this early on and developing SOC in 2007, ADSL has positioned itself effectively to outperform its rivals. Everyone will have a great chance, and non-discretionary spending will be necessary to prevent and stop cyberattacks

Master System Integrator (Smart City) –

ADSL is regarded as a Master Systems Integrator, a pioneer, and a market leader. Making the whole cities of Pune and PCMC digital in 2015 was the first step toward creating the first safe/smart city

The entire city is being watched over by a top-notch, cutting-edge command and control centre (CCC). Under the Central Government's plans to construct 100 Smart Cities, the company has developed the finest global practices and capacity to solve a variety of Smart City project opportunities

ADSL has been awarded smart city projects in Amritsar, Jalandhar, Sultanpur Lodhi, Pune and Pimpri Chinchwad, Kalyan Dombivali, Aurangabad, Bidkin, Rajkot, Solapur, Jaipur, & Lucknow

Infrastructure Management Services (Recurring Revenue) –

Technology is at the core of ADSL and it offers IT services, a high-margin recurring revenue annuity business. For the upcoming five years, organization has already committed to a pure services revenue of more than Rs 2000 crs worldwide

To assist businesses, ADSL has developed a NOC/SOC and a global service delivery center in Mumbai. Since the beginning, this business has been a legacy. Many large businesses are currently combining their various service providers into a single service provider by novating all of their current contracts. In order to support one of the biggest auto manufacturers in the world by displacing hundreds of contractors, ADSL has secured one extremely sizable contract in the USA

Software Services and AMR Workplace Management –

By creating a cutting-edge Conversational Banking platform in the fintech sector, ADSL has established a ground breaking Fino Allied platform. This platform can be expanded to include the insurance industry and other sectors where conversational bots can be used to conduct transactions

Emerging technologies including NLP, AI/ML, blockchain, data analytics, and data science are used by this platform. With its carefully trained and reskilled personnel, the organization is very eager to search out for chances leveraging these innovative technologies.

ADSL plans to participate in Industrial Revolution 4.0 to address challenging business issues. It has made significant investments in a talented staff, and is confident that using these innovative digital technologies will pay off going ahead

Innovation buckets introduced by ADSL –

- 1) ADiTaaS– SAAS model
- 2) FinoAllied is a AI Platform specifically designed for Banking & Finance. FinoAllied is a Conversational AI Platform specifically designed for Banking & Finance. ADSL is awaiting proof of concept (POC) approval. It has already tied up with a Kolkata based company, who has a core banking solution. The MOU has been already signed. ADSL is also discussing with 4-5 banks. The products for discussion are: A) Per User, B) Per Transaction and C) AMC for 2 years
- 3) SAAS – monthly recurring; for FY25, the company expects strong revenue visibility

SAAS –

- 1) Version 5.0 – 2023 for ADSL
- 2) Version 6.0 – for HR, Accounts, which is also used widely in IT Infra & in Non– IT areas also
- 3) In this business segment Mr. Paresh Shah who is the CEO, is spearheading this initiative having joined ADSL in 2009. He is ex- Wipro. And ADSL had its first customer in UK since 2011 onwards

ADSL has a business model which is futuristic in nature. As compared to most of the IT vendors whose revenue is linearly proportional to the number of employees, ADSL's business model is amazingly non-linear in nature.

It's direct support model and an established remote management infrastructure enables it to provide the same set of services as other IT vendors at a significantly competitive pricing to customers

ADSL has two types of business offerings namely, solutions and services. Earlier years, a majority of its' revenues used to come from solutions. However, in the recent times ADSL's services share of revenues has shown a sharp uptick. It further aims to improve its share of revenue from services going ahead into the future as it provides better margins to the company

The solutions business of ADSL is operated mainly on turnkey basis wherein ADSL designs the entire spectrum of IT infrastructure on which various applications such as ERP are run.

It can be also classified as system integration (SI) wherein ADSL sets up the entire IT infrastructure in an organization on which applications such as ERP and others can be run.

After the completion of the project the client takes over the set-up. ADSL thereby gets an AMC (Annual Maintenance Contract) which is equivalent to 15% of contract value. In services, ADSL provides mostly SLA (Service Level Agreement) based IMS services wherein ADSL sets some sort of target in terms of uptime (availability of the IT assets/applications) requirement and cost that will have to be incurred which is generally 30-40% lesser than the current cost incurred by the company on its IT infrastructure.

The SLA is formed in such a way that with time (mostly on a year on year basis) ADSL increases uptime and at the same time decreases the cost the client has to incur on maintaining its IT infrastructure

The IMS service provided by ADSL is significantly competitive in comparison to some of the top-tier IT vendors who provides the same set of services on the people-billing model. ADSL has been able to achieve this by assessing client's IT Infrastructure and therefore arriving at an optimal onsite:remote mix. The optimal onsite : remote mix makes it possible for ADSL to keep the number of onsite engineers at the very minimal and much less in comparison to the top-tier IT vendors

With time ADSL has gained a level of comfort with the IT infrastructure, the number of engineers stationed onsite is decreased even further. This reduces the client's overall cost for ADSL which in turn is passed to the client and the good thing any compromise on the quality of service provided

The ADSL management discovered quite early that 80% of the IT problems encountered in an organization are software in nature and do not really require the attendance of an onsite engineer. Thus expert remote support was enough to keep an organisation's IT infrastructure up and running all the time. This had a number of benefits not only in terms of lower pricing and higher uptime but also in the quality of service provided

Later on, ADSL also found that a majority of these software problems were quite common or recurring in nature. It therefore started developing "patches" for such problems.

Patches can be defined as a piece of software designed to solve common problems which are dispatched from remote to the client site as and when required (or in other words, a patch is a quick-repair job).

This further helped in reducing the problem solving time and also made it possible for the remote consultants to devote time to other problems or “tickets” (Queries or problems sent by clients are called ticket in software parlance), thus increasing overall productivity

Over the years ADSL has built up a good knowledge base consisting of these patches. Therefore, the company went one step further and developed an “auto-resolution engine” which had the capacity to identify a problem that has been solved before, find the required patch to resolve it and dispose the same to the client’s base

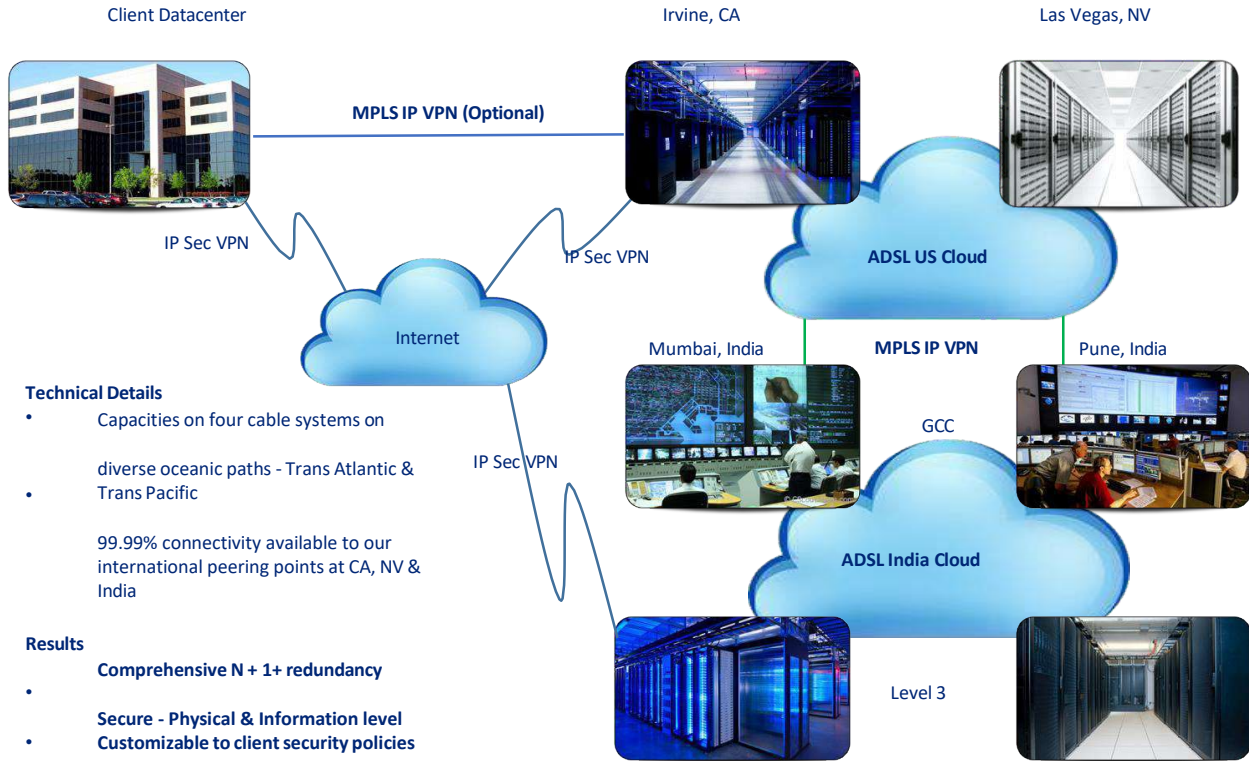
This has also been a huge success and the management has informed us that currently around 78% of the tickets gets resolved through this automated managed service. Thus the company has been hugely successful in making their revenues non-linear in nature in this manner

For its remote management service, ADSL has set up a facility in SEEPZ, Mumbai consisting of Network Operation Centre (NOC) and Information Security Operation Centre (SOC). The main function of the NOC is to provide round-the-clock remote network management services to customers

It monitors and manages a wide variety of device, platforms and applications. The SOC on the other hand monitors and proactively manages entire information lifecycles. For SOC, ADSL has a tie-up with e-Cop which enjoys a leadership position in SOC services in Singapore

Work from Anywhere –

As work from home has now shifted to work from anywhere and ADSL was the first to execute this programme



Technical Details

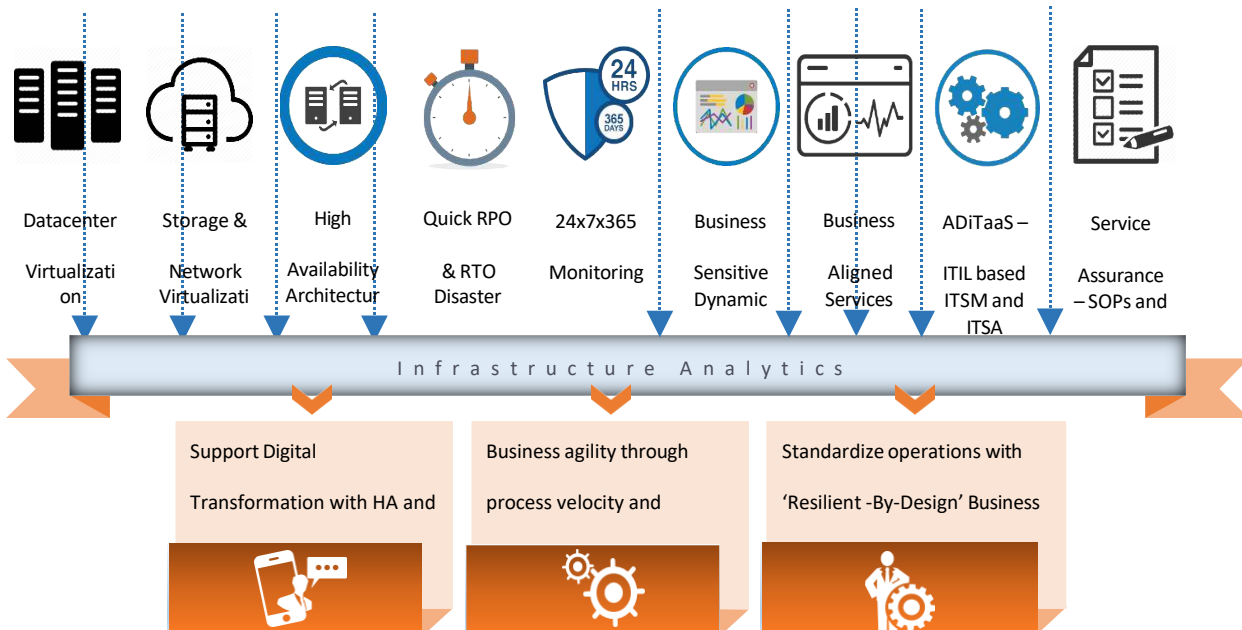
- Capacities on four cable systems on diverse oceanic paths - Trans Atlantic & Trans Pacific
- 99.99% connectivity available to our international peering points at CA, NV & India

Results

- **Comprehensive N + 1+ redundancy**
- **Secure - Physical & Information level**
- **Customizable to client security policies**

Remote Enterprise Infrastructure Management

Enterprise IT Service Assurance

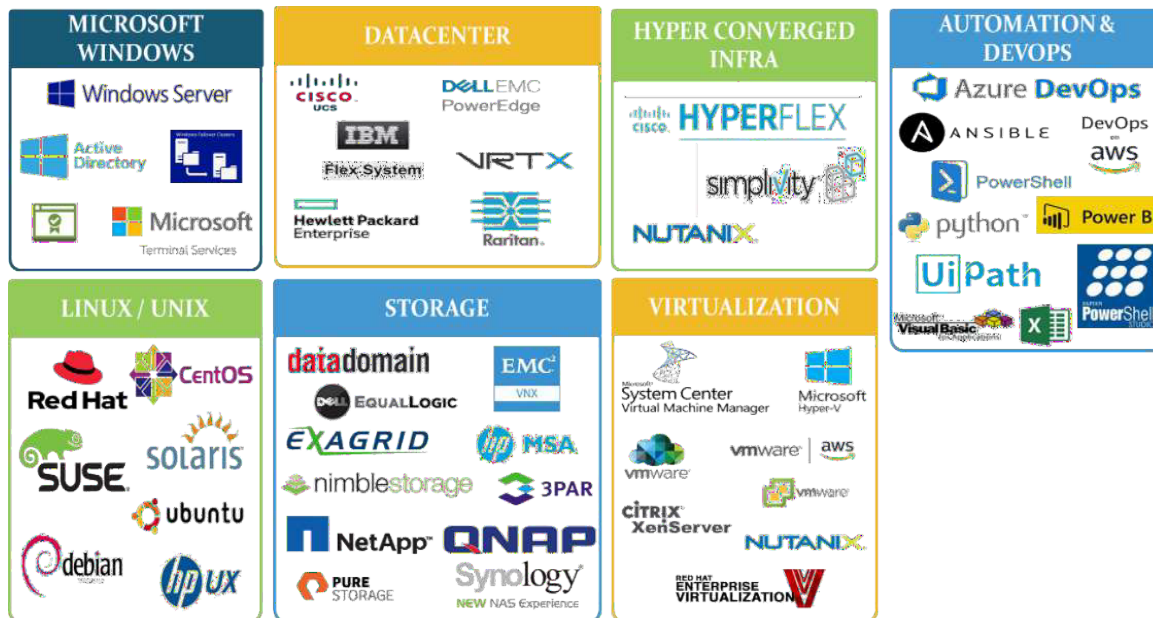
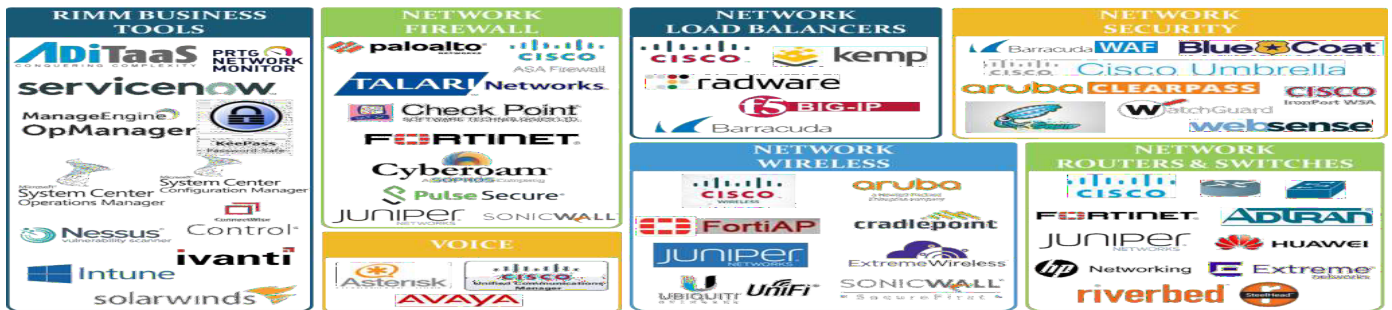


ADSL has unique technology as they did a project with the government for the recognized stolen vehicle number plate which is operated by police.

Cyber Security

ADSL provides security to its clients and it does B2B and start with a vulnerability test to check, if there is any area that the hacker can enter and penetration test - after identifying it the company recommends plans and solutions - data security

ADSL provides wide range of technologies to its customers which include –



Cloud Solutions and Services – Public/Hybrid/Multi-cloud-Over the years, Allied Digital has gained tremendous expertise in public clouds such as AWS, Azure, and GCP to implement hybrid cloud models for enterprises

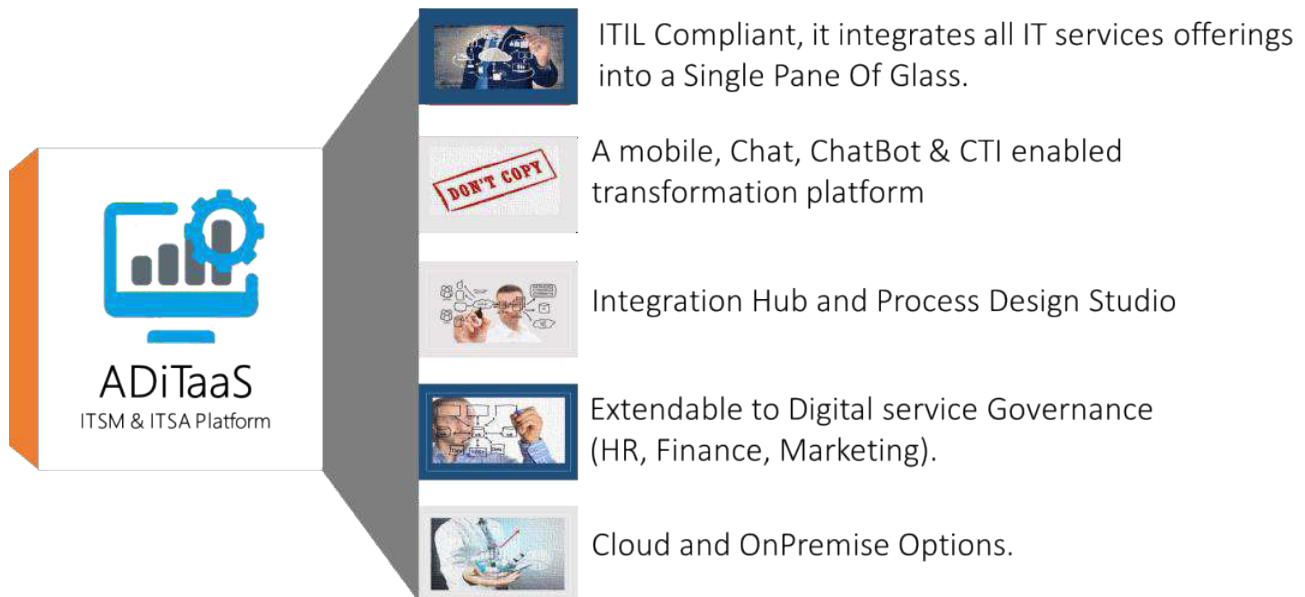


ADSL's enterprise infrastructure services division drives a comprehensive public cloud engineering and support offering for Amazon (AWS), Azure, and Google Cloud Platform's cloud management services

The company provides a one-stop hybrid-cloud remote managed service, and transformative cloud enablement services such as cloud application, migration, and analytics

ADSL advises, implement, and manage public clouds. And its cloud management services involve monitoring, administration, and management of deployed infrastructure, enterprise applications, as well as SaaS, IoT, and analytics environments. ADSL's 10-Years+ extensive experience doing remote enterprise services (NOC) gives it a strong edge for managing cloud operations for global enterprise customers

ADiTaaS – ITSM, ITSA and DSM Platform- The company is working with Tata Motors



In December 2021, during covid times Tata Motors were not keen enough to go ahead for the implementation from a known company. Hence, ADSL was given the opportunity to empanel with Tata Motors for their 35,000 end points. Very soon ADSL expects to enter the Jaguar Land Rover vertical of Tata Motors, for its services

Key Competitive Moats & growth drivers ahead for ADSL –

Solid Execution skills - The most important factor for any IT Services company is execution, and execution has been top-notch for ADSL

Also ADSL has a business model which is futuristic in nature. As compared to most of the IT vendors whose revenue is linearly proportional to the number of employees, ADSL's business model is amazingly non-linear in nature. Also ADSL has proactively focused on the remote IT Infrastructure business segment which has helped it scale up operations & at the same time cut employee overheads costs effectively

ADSL has clearly managed to differentiate itself from the other IT vendors on this front. Its revenue has grown at a much faster pace than its number of employees. Moreover, the business model of ADSL is such that with time it is able to increase its profit margin by decreasing the number of onsite employees and shifting work off-shore. Its auto-resolution engine also goes a long way in helping the company decrease cost as well as increase productivity.

Strong Order book gives strong revenue visibility ahead –

ADSL has a Rs 20 Bn order book on a consolidated basis. The company has unexecuted order book about 16 bn, which gives strong revenue visibility for the near to medium term

Top Quality Management – Experienced Management, Skilled Employee Base and the Promoters of Allied Digital Services have approximately an average 4 decades experience in the IT sector. The majority of the company's Key Management Personnel have been employed with the company for over 8-10 years and have contributed towards the growth of the company through their commitment and experience.

The promoters of the company Mr. Nitin Shah, Mr Nehal Shah have vast experience in the IT Sector especially the IMS and Cloud business which is evident from the excellent operations of ADSL till through various economic cycles and also the promoters have infused need based funds to support the operations of the company during economic downturns

Additionally, ADSL has a excellent operations team, a strong technical team and has focused highly on inhouse R & D on board also.

Steady Operating Cashflows is also a big positive driver –

ADSL has been generating very steady healthy operating cash flows since the last 5 years starting FY19 onwards rising from Rs 19 crs to Rs 47 crs in FY23. This has been due to the fact that ADSL has selected to work with credible private/government customers possessing adequate funding lines which makes it possible for it to get remunerated at periodic milestones that protect its liquidity

This is reflective of the fact that average debtors period has reduced from 264 days in FY19 to just 98 days in FY23 with the CCC getting reduced to 102 days in FY23 from 304 days in FY19 indicating healthy cash inflow generated from efficient & tight working capital management by the company

The CFO/EBIDTA in FY23 stood at 53% vs 21% in FY22 which clearly indicates a high degree of cash flow generated from the operational EBIDTA generated by the company which is also a positive sign indicating the robustness of the company's business model

IMS Market segment has strong tailwinds going ahead –

Infrastructure Management Service is a niche vertical that is fast coming up globally. It is also a market which is largely untapped in nature. It is estimated that the total IMS market is a more than a \$100 billion market

Almost the entire Indian IT services industry depends on three categories of services. The first segment is system integrations, which includes packaged application implementation, custom application development and integration. The market size for this is approximately \$98 billion. The second segment is application outsourcing, which includes support and maintenance services. This market is estimated to be close to \$15 billion. The third segment is IT consulting, which includes strategic consulting, business process consulting and change management.

With a very few Indian companies playing in the IMS market, the potential for growth is huge. The recent trend is also positive with a number of North American and European firms looking at Indian off-shore vendors in order to cut cost and improve productivity on the infrastructure side. Even medium sized firms are also coming forward and off-shoring their IT needs in order to cut down on costs

We therefore believe that the IMS market in time will become a larger market & ADSL with their core competency being in IMS with a well established IMS infrastructure in the form of SOC and NOC, as well as employees with required expertise is well-poised to capture a huge chunk of this market

Key Weakness –

ADSL's main customer base comes from its overseas customers in US. While this is not a major risk to the business, we believe timely execution is very important and any slowdown here if any could have a negative impact on the company's operations. However, we believe that looking at ADSL's execution track record till date such an eventuality would not happen in future

Key Developments –

ADSL has booked orders of Rs 325+ crs towards new wins and renewals for multi-year contracts. A few key wins include –

A contract from a leading packaged food FMCG company in India, which is part of one of the largest business groups in India. The contract is valued at Rs.25 Cr executable over 5 years covering enhanced infrastructure deployment and management of IT Systems

Signed a Master Services contract with a prominent retail group in North America to provide a 'Global Service Desk' based services to all retail chain stores owned and operated by it. The total contract value for this engagement is Rs 25 Crore executable over 3 years. ADSL is in discussion to further expand the scope to offer Retail Store Support (RSS), Depot Services and Infrastructure Management Services to the customer

A multi-year services contract with one of the largest providers of child-care services in North America. The scope includes providing End User Service Desk and Enterprise Infrastructure Support to all their employees, franchises and partners across the USA

A services contract with the North American division of a prominent European Automotive OEM. The scope includes End User support, field support to dealers in the USA West Coast and LAN/WAN/Wireless support for their USA offices

Signed multi-year renewals with customers across retail, health care and life-sciences industries

Awards won by ADSL –

Allied Digital received the 'Award for Talent Management' from the World HRD Congress at the "Global HR Excellence Awards "held on 15th February 2023

Allied Digital won the prestigious "Leadership in Innovation–Tech Services" award in the Medium Enterprises category at the Nasscom SME Inspire Awards 2023 on 28th March 2023 for it's FinoAllied–Conversational AI Banking platform

Allied Digital won the coveted Jury award in the IT/ITEnabled Services category at the SME Empowering India Awards 2023 on 11th April 2023

Allied Digital has won the award under the category-'Best ESG Initiative to Improve Communities/Cities' at the ESG Summit and Awards 2023 held on 26th April, 2023

ADSL enjoys a strong BS with huge scalability potential going ahead –

ADSL runs a strong business model covering both the IMS, Cloud, cybersecurity, smart city solutions, infrastructure management services, software solutions, and workplace management services while it continues to invest on a sustained basis largely via internal accruals for both its capex & working capital requirements.

In fact ADSL has generated very healthy operating cash flows since the last 5 years starting FY19 onwards rising from Rs 15 crs to Rs 47 crs in FY23. This has helped it fund its WC and capex requirements from internal accruals.

In FY23 the company saw a dip in revenues in Q4FY23 as during this period 2 customers in US did not renew on the services side. However the company expects normalcy in FY24 going ahead

We expect that going ahead overall bottomline growth in the next 2 years starting FY24 onwards should increase at a CAGR of 21-22% and with capex & WC largely funded from internal cash flows

We expect the PAT to grow solidly in the next 2 years until FY25 to Rs 104 crs from Rs 70 crs in FY24.

Also EBIDTA is also expected to grow by 29% in the next 2 years to Rs 143.55 crs in FY25 from Rs 111.67 crs estimated in FY24. Going ahead the company is confident of maintaining & improving its EBIDTA margins which currently stand at 14-15% following a strong order book pipeline in the coming years which will also improve in stronger OCFs in coming 2 years ahead

Business Outlook & Stock Valuation –

On a rough cut basis, in FY24E, Topline is expected to touch Rs 792 crs, followed by Rs 990 crs in FY25E

On the bottomline level we expect the company to record a PAT of Rs 70 crs in FY24E which is expected to bounce back to Rs 105 crs in FY25

Thus on a conservative basis, ADSL should record a EPS of Rs 12.76 for FY24E. For FY25E our expectation is that earnings traction for ADSL would continue to be strong wherein we expect a EPS of Rs 19.15 respectively.

On a EV/EBIDTA basis the stock trades at 6x & 4x on FY24 and FY25 which looks very low for a well established player enjoying good profitability, and a strong hold in its business segment. On a PE basis the stock trades at 10x and 7x FY24E and FY25E

Hence looking at its present financial track record & future potential we expect valuation multiples on a EV/EBIDTA basis to average around 5-6x going forward.

The company management is confident of improving EBIDTA margins in going ahead via operational efficiency and better pricing due to operating leverage benefits ahead

Looking at ADSL's steady financial track record, strong business domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Hence we believe that the ADSL stock should be purchased at the current price for a price target of around Rs 213 over the next 12 to 18 months

FINANCIALS

For the Year Ended March RsCr	FY21	FY22	FY23	FY24E	FY25E
Net Sales	358.00	485.00	660.00	792.00	990.00
EBIDTA	45.00	70.00	88.00	111.67	143.55
EBIDTA %	12.57	14.43	13.33	14.10	14.50
Interest	4.00	3.00	4.00	3.75	3.50
Depreciation	22.00	20.00	17.00	18.00	19.00
Non Operational Other Income	4.00	2.57	5.65	2.00	2.00
Exceptional Loss/Income		23.80	-46.85	0.00	0.00
PBT(Without Exceptional items)	24.00	49.57	72.65	91.92	123.05
PAT (Without Exceptional items)	19.00	37.00	53.00	70.00	105.00
Cash Profits	41.00	57.00	70.00	88.00	124.00
Diluted EPS (Rs)	3.75	6.83	9.66	12.76	19.15
CPS (Rs)	8.09	10.52	12.76	16.05	22.61
Equity Capital	25.35	27.10	27.42	27.42	27.42
Reserves	444.00	504.00	509.00	579.00	684.00
Borrowings	54.00	43.00	35.00	30.00	25.00
GrossBlock	229.00	238.00	251.51	271.51	291.51
Investments	66.00	68.00	89.00	90.00	86.00

Source Company our Estimates

KEY CONCERNS

ADSL's main customer base comes from its overseas customers in US. While this is not a major risk to the business, we believe timely execution is very important and any slowdown here if any could have a negative impact on the company's operations. However, we believe that looking at ADSL's execution track record till date such an eventuality would not happen in future