

Allied Digital Services Limited

March 25, 2025 | CMP: INR 200 | Target Price: INR 264

BUY

Expected Share Price Return: 32.0% | Dividend Yield: 0.8% | Expected Total Return: 32.8%

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✗

Company Info	
BB Code	ALDS IN EQUITY
Face Value (INR)	5.0
52 W High/Low (INR)	320/124
Mkt Cap (Bn)	INR 10.6/ \$0.1
Shares o/s (Mn)	56.2
3M Avg. Daily Volume	5,80,506

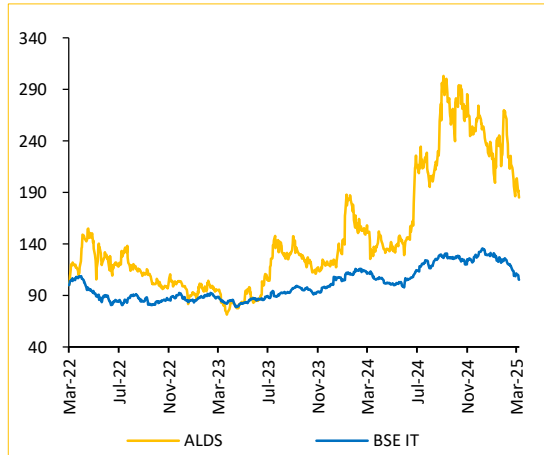
Change in CEBPL Estimates						
	FY26E			FY27E		
INR Bn	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenues	9.9	9.5	4.2	11.4	11.3	1.3
GPM (%)	21.6	22.1	(48) bps	22.5	23.0	(49) bps
EBIT	1.1	1.1	(2.5)	1.4	1.4	(2.7)
EBITM %	10.8	11.6	(74) bps	11.9	12.4	(49) bps
EPS	13.3	12.8	3.4	16.5	15.9	3.6

Actual vs CEBPL est.			
INR Bn	Q3FY25A	CEBPL est.	Dev. %
Revenue	2.2	2.0	5.5
EBIT	0.2	0.3	(27.4)
EBITM %	9.2	13.3	(414) Bps
PAT	0.2	0.2	(11.6)

Key Financials					
INR Bn	FY23	FY24	FY25E	FY26E	FY27E
Revenue	6.6	6.9	8.3	9.9	11.4
YoY (%)	36.2	4.1	20.9	18.8	15.6
EBIT	0.7	0.7	0.7	1.1	1.4
EBITM %	10.8	9.8	9.0	10.8	11.9
Adj PAT	0.5	0.5	0.6	0.8	1.0
EPS	1.3	8.3	9.7	13.3	16.5
ROE %	1.3	7.9	9.2	11.4	12.8
ROCE %	11.5	9.6	10.2	13.4	15.5
PE(x)	150.6	22.9	19.6	14.3	11.5

Shareholding Pattern (%)			
	Dec-24	Sep-24	Jun-24
Promoters	51.33	51.71	52.09
Fills	1.67	2.01	1.81
Dils	0.00	0.00	0.00
Public	47.01	46.28	46.10

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE IT	0.9	22.3	(5.1)
ALDS	54.0	103.6	47.7



Rushil Katiyar

Email: rushil.katiyar@choiceindia.com

Ph: +91 22 6707 9887

Analyzing Q3 Results amid Trump Tariffs & Macroeconomic Challenges

ALDS Revenue above estimates, EBIT & PAT missed expectations

- Revenue for Q3FY25 came at INR 2.2Bn up 28.9% YoY and 8.6% QoQ (vs CEBPL est. at INR 2.0Bn).
- EBIT for Q3FY25 came at INR 0.2Bn, up 22.0% YoY and 40.6% QoQ (vs CEBPL est. at INR 0.3Bn). EBIT margin was down 52bps YoY but up 208bps QoQ to 9.2% (vs CEBPL est. at 13.3%).
- PAT for Q3FY25 stood at INR 0.2Bn, up 51.2% YoY and 52.3% QoQ (vs CEBPL est. at INR 0.2Bn).

Revised & optimized timeline for achieving INR10Bn revenue by FY26: In Q3FY25, ALDS secured over INR2Bn in new orders and contract renewals, also marking its second consecutive quarter with revenues exceeding INR2Bn. This performance sets a new base for the company's top-line growth. Management remains confident in achieving its revised revenue target of INR10Bn by FY26 (earlier FY27). We believe this growth will be driven by a recovery in global business demand, strong momentum in government Smart/Safe City projects, and a robust pipeline of large-scale projects. However, the risk of not securing the projects that were bid on still remains. The company is also tapping into new opportunities in the Rest of the World (ROW). Business visibility remains robust, particularly in India, reflected in recent order wins and contract renewals. ALDS is poised to capitalize on increasing global technology spending, especially in high-growth areas like digital engineering, cloud, and cybersecurity. With its focus on innovation through AI, Machine Learning, and Big Data, ALDS is enhancing its services and positioning itself for larger contracts, targeting 75% from services and 25% solutions by FY26.

INR400Bn opportunities awaits in smart town projects: India's business is thriving, with strong growth prospects, especially in the smart cities sector. The company is negotiating several deals for Q4, capitalizing on the government's focus on infrastructure and the launch of 1,000 smart-town projects worth INR400Bn. Opportunities are expanding beyond India, with smart city initiatives growing in the UK, Africa, and UAE. Tapping into new enterprise markets and leveraging GCC strengths will enhance global reach. In cybersecurity, increasing demand, particularly for smart city solutions, offers significant potential. The company's expertise in data centers further positions it for growth in this space.

ALDS may sidestep Trump tariff risks: The overall focus of the Trump tariffs will likely be directed towards the IT services sector, potentially leading to a slowdown in IT spending. However, ALDS may be less affected by this trend. The company's contract-based business model ensures more stable and predictable revenue for the coming years.

Aspirational margin goals of above 13%: EBITDA margin for the quarter stood at 12%, consistent YoY and showing sequential improvement. Despite cost pressures and strategic investments, margins rebounded from the previous quarter. Going forward, management plans to maintain a 12% EBITDA margin with a target of 13%+ in the next 3-4 quarters. We anticipate that this will be driven by cost reduction efforts, stronger margins in the US market due to its service focus, and growth in high-margin regions, all contributing to overall margin expansion.

View and Valuation: ALDS is uniquely positioned to capitalise on the emerging opportunities leveraging next-gen technologies given the skill sets, empowered teams, global partnerships and strategic relationships with marquee customers. We expect Revenue/EBIT/PAT to grow at a CAGR of 17.2%/ 35.0%/ 30.6% respectively over FY25E-FY27E. We maintain our rating to BUY with a revised target price of INR264 implying a PE of 16x on FY27E EPS of INR16.5.

ALDS Ltd.	Q3 FY25	Q3 FY24	YoY (%)	Q2 FY25	QoQ (%)
Revenues (INR Mn)	2,206	1,711	28.9	2,030	8.6
Employee Cost	1,779	1,324	34.3	1,663	6.9
Gross Profit (INR Mn)	427	387	10.5	367	16.3
Gross Margin (%)	19.4	22.6	(323) bps	18.1	128 bps
Other Cost	177	180	(1.7)	175	0.9
Depreciation	49	41	17.7	48	0.2
EBIT (INR Mn)	202	166	22.0	144	40.6
EBIT Margin (%)	9.2	9.7	(52) bps	7.1	208 bps
Other Income	23	6	294.8	38	(39.3)
Interest	24	10	135.0	25	(4.7)
PBT	201	161	24.6	156	28.7
TAX	24	44	(45.7)	40	(40.0)
PAT (INR Mn)	177	117	51.2	116	52.3
Basic EPS (INR)	3.0	2.1	41.4	1.8	62.3

Source: Company, CEBPL

Management Call - Highlights

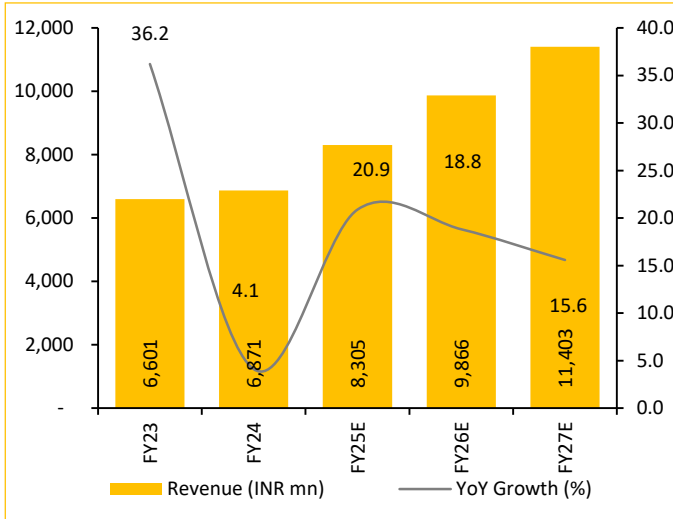
- The company has a cash reserve (approximately INR180Cr) intended for potential strategic acquisitions and investments to acquire larger customers.
- During Q3FY25, the company generated 38.0% of its revenue from India, compared to 32.0% in Q3FY24. The remaining 62.0% of revenue came from the rest of the world, down from 68.0% in Q3FY24.
- ALDS increased its revenue share from Solutions to 24% in Q3FY25, up from 15% in Q3FY24.
- Management's current target for DSO is to further decrease it to below 70 days, with an aspirational goal of 60 to 65 days.
- ALDS secured over INR200Cr in new orders and contract renewals. Key wins include:
 - A leading US-based multinational investment bank selected ALDS to provide end-user and investor service desk solutions. The team will deliver first-level assistance to employees, investment managers, and brokers across offices in Ohio, USA, London, UK, Hong Kong, and Japan.
 - ALDS has been entrusted with transforming IT services for a major US-based eye care provider. The company will manage the IT infrastructure, global services, end-user support, and field services across the nation's clinics, ensuring seamless operations and enhanced user experience.
 - ALDS has received an additional work order for a smart industrial township project, contributing to Maharashtra's industrial expansion and economic growth.
 - India's second-largest public sector bank, headquartered in Vadodara, Gujarat, has entrusted ALDS with the implementation of data center and data recovery solutions, enhancing the bank's resilience and operational efficiency.
 - ALDS has secured network upgradation projects for a client in the exploration, mining, and processing of iron ore, ensuring operational efficiency and connectivity in this critical sector.

Sequential Operating Performance

	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Income Statement						
Revenues (INR Mn.)	1,702	1,711	1,768	1,791	2,030	2,206
Gross Profit (INR mn.)	364	387	324	333	367	427
Gross Margin (%)	21.4	22.6	18.3	18.6	18.1	19.4
EBIT (INR mn.)	164	166	203	145	144	202
EBIT Margin (%)	9.6	9.7	11.5	8.1	7.1	9.2
RPAT (INR mn.)	115	117	141	104	116	177
APAT (INR mn.)	115	117	141	104	116	177
Basic EPS (INR)	2.1	2.1	2.5	1.9	1.8	3.0
Operating Metrics						
Revenue - Geography (%)						
India	32.0	32.0	34.0	34.1	36.9	38.0
Rest of the world	68.0	68.0	66.0	65.9	63.1	62.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue - Segments (%)						
Solutions	16.0	15.0	21.0	22.9	26.1	24.0
Services	84.0	85.0	79.0	77.1	73.9	76.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue – Customer Profile (%)						
Government Customers	15.0	16.0	21.0	23.5	26.6	24.0
Enterprise	85.0	84.0	79.0	76.5	73.4	76.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

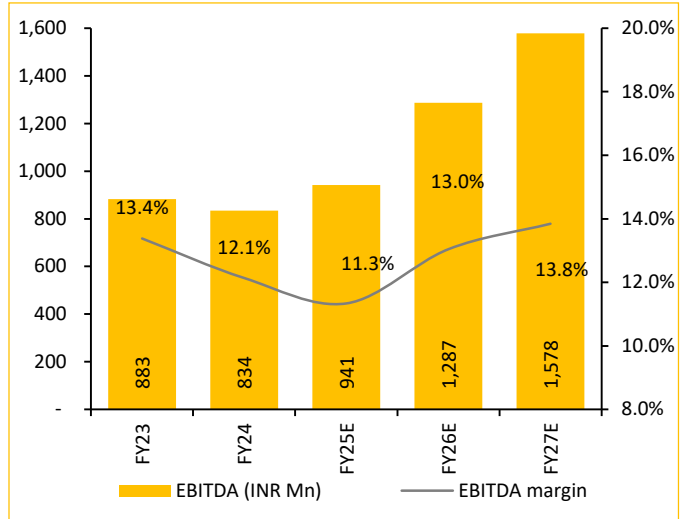
Source: Company, CEBPL

Revenue to head towards INR10Bn target



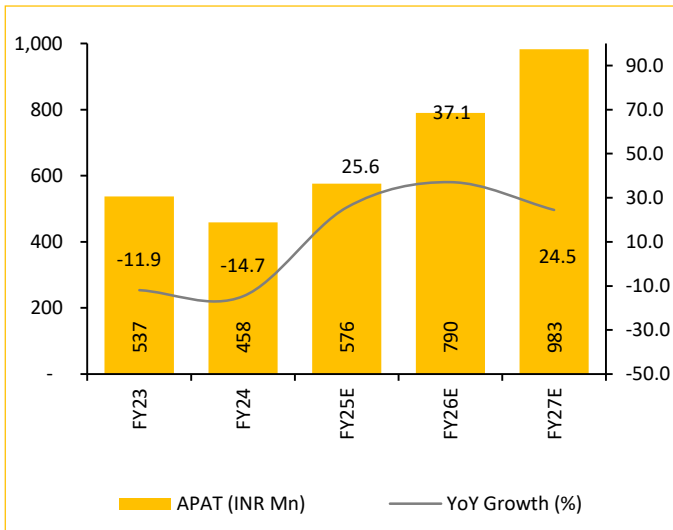
Source: Company, CEBPL

EBITDA margins to expand to mid-teens



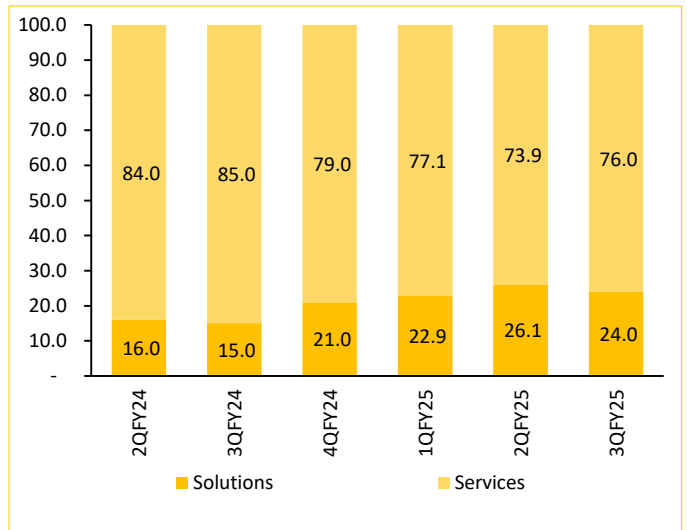
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APAT margins to expand driven by EBIT growth



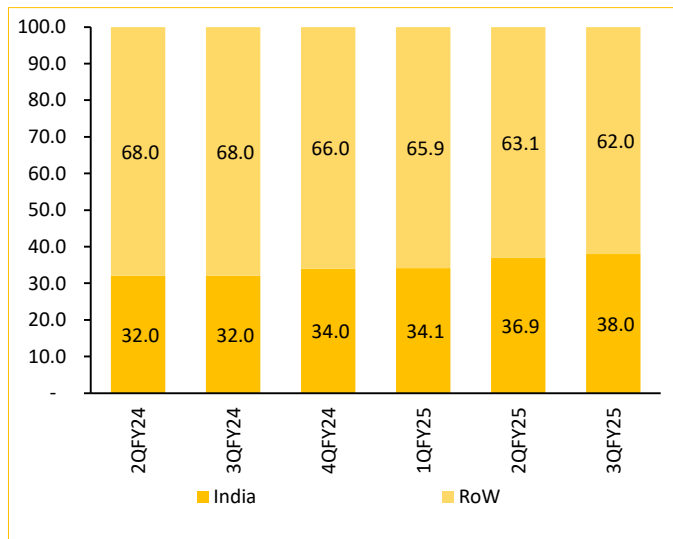
Source: Company, CEBPL

Increasing share of services business



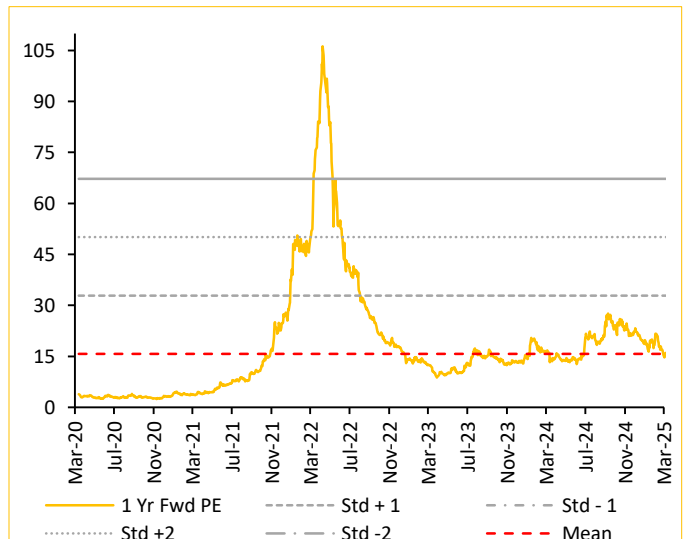
Source: Company, CEBPL

Revenue share of India business expanding



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income Statement

Income Statement (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	6,601	6,871	8,305	9,866	11,403
Gross profit	1,469	1,416	1,631	2,131	2,570
EBITDA	883	834	941	1,287	1,578
Depreciation	170	164	198	217	224
EBIT	713	670	743	1,069	1,354
Other income	57	12	75	64	63
Interest Expenses	40	52	77	59	80
Exceptional Item	-	-	-	-	-
RPAT	69	458	576	790	983
APAT	537	458	576	790	983
EPS (INR)	1.3	8.3	9.7	13.3	16.5

Source: Company, CEBPL

Balance Sheet

Balance Sheet (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Fixed Assets	1,406	1,523	1,534	1,547	1,623
Goodwill & Intangible assets	1,240	1,267	1,267	1,267	1,267
Investments	62	62	62	62	62
Cash & Cash equivalents	835	1,379	1,302	1,497	1,728
Other Non Current Assets	403	449	534	635	755
Other Current Assets	3,002	3,100	3,407	3,758	4,148
Total Assets	6,949	7,780	8,107	8,766	9,583
Shareholders Funds	5,360	5,786	6,249	6,881	7,667
Minority Interest	354	403	403	403	403
Borrowings	345	596	420	406	392
Lease Liability	-	-	-	-	-
Other Non- Current Liabilities	121	231	250	271	293
Other Current Liability	769	764	784	805	827
Total Equity & Liabilities	6,949	7,780	8,107	8,766	9,583

Source: Company, CEBPL

Cash Flows (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash Flows from Operations	470	676	413	863	1,099
Cash Flows from Investing	(117)	(29)	64	51	(13)
Cash Flows from Financing	(111)	(102)	(77)	(59)	(80)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenues	36.2	4.1	20.9	18.8	15.6
Gross Profit	18.7	(3.6)	15.2	30.7	20.6
EBITDA	26.1	(5.6)	12.9	36.7	22.7
EBIT	43.3	(6.0)	10.9	43.9	26.6
Margin Ratios (%)					
Gross Profit Margin	22.2	20.6	19.6	21.6	22.5
EBITDA Margin	13.4	12.1	11.3	13.0	13.8
EBIT Margin	10.8	9.8	9.0	10.8	11.9
Profitability (%)					
ROE	1.3	7.9	9.2	11.5	12.8
ROIC	9.2	7.6	8.7	10.8	12.4
ROCE	11.5	9.6	10.2	13.4	15.5
Valuation					
OCF / Net profit (%)	582.8	147.5	55.7	80.3	82.2
Book Value Per Share (x)	95.9	103.8	105.0	115.7	128.9
Free Cash Flow Yield (%)	7.0	7.2	3.6	8.8	10.5

Source: Company, CEBPL

Historical Price Chart: ALDS Limited



Institutional Research Team

Utsav Verma, CFA	Head of Research – Institutional Equities	utsav.verma@choiceindia.com	+91 22 6707 9440
Prashanth Kumar Kota, CFA	Analyst – Basic Materials / Real Estate & Infra	prashanth.kota@choiceindia.com	+91 22 6707 9887
Deepika Murarka	Analyst – Pharmaceuticals / Healthcare	deepika.murarka@choiceindia.com	+91 22 6707 9513
Ashutosh Murarka	Analyst – Cement	ashutosh.murarka@choiceindia.com	+91 22 6707 9887
Putta Ravi Kumar	Analyst – Defense	ravi.putta@choiceindia.com	+91 22 6707 9908
Aayush Saboo	Analyst – Real Estate & Infrastructure	aayush.saboo@choiceindia.com	+91 22 6707 9512
Maitri Sheth	Analyst – Pharmaceuticals / Healthcare	maitri.sheth@choiceindia.com	+91 22 6707 9511
Nikhil Kamble	Sr. Associate – Consumer Retail	nikhil.kamble@choiceindia.com	+91 22 6707 9513
Bharat Kumar Kudikyala	Associate – Building Material	bharat.kudikyala@choiceindia.com	+91 22 6707 9887
Vinay Rawal	Associate – SMID	vinay.rawal@choiceindia.com	+91 22 6707 9887
Heet Chheda	Associate – Automobile	heet.chheda@choiceindia.com	+91 22 6707 9952
Aryan Goyal	Associate – Automobile	aryan.goyal@choiceindia.com	+91 22 6707 9517
Rushil Katiyar	Associate – Information Technology	rushil.katiyar@choiceindia.com	+91 22 6707 9887

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HOLD	The security is expected to show upside or downside returns by 14% to -5% over the next 12 months
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Compliance Officer--Prashant Salian, Email Id – Prashant.salain@choiceindia.com Contact no. 022- 67079999- Ext-2310

Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834. Email- ig@choiceindia.com

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