

Allied Digital Services Ltd.

BUY

Choice

India business, Smart city projects and data center opportunities to see for

ADSL reported Q2FY25 consolidated revenues at INR 2,030mn, up 13.3% QoQ and 19.3% YoY. Standalone Revenues for Q2FY25 were higher by ~33% on a YoY basis, driven by disciplined execution of the order book while maintaining consistent EBIDTA and PAT levels. RPAT for the quarter came at INR1.16mn (+11.4% QoQ and 1.1% YoY) led by high other income. EPS for the quarter stood at INR1.8. Company won INR675mn+ worth orders including new wins and multi-year projects.

- **Outlook and revenue trajectory:** ADSL sees a lot of opportunity in Middle East and hence it has opened a subsidiary branch in Dubai. At the end of Q2FY25, it had an order book of INR6.7bn+ to be executed in next 5-6 years, however, it does not include renewal and annuity business. Management maintains its revenue target of INR10bn by FY27E to be driven by recovery in global business demand in next 4-6 quarters, good traction in Smart/Safe city projects from Government and other large projects in the pipeline. Despite a cautious backdrop in the US market ahead of the presidential election in November, ADSL have been able to add a couple of new customers in that region this quarter. Their teams have proactively sought out pockets of opportunity in the RoW market as well. Business visibility is strong, with robust performance in the Indian market. Global customers are prioritizing IT investments in transformative areas like cloud, cybersecurity, AI, big data, and machine learning, despite a focus on cost optimization. This trend is reflected in the recent multiple order wins and contract renewals.
- **TAM and other opportunities:** India business is doing good and is on a growth trajectory with ample opportunities in smart cities space. Traction remains strong and the company is currently in discussions to close few more deals in Q3. Indian government's focus on infrastructure shall boost proposal of 1,000 smart-town projects which offers a substantial market size of ~INR400bn. Smart city projects are growing in the UK, Africa, and Asia-Pacific, opening opportunities beyond India. Tapping into new enterprise markets and GCC strengths can boost global access and new prospects. In the cybersecurity arena, there are numerous exciting prospects. The ongoing demand for cybersecurity services is expected to grow significantly, particularly within smart city projects that require recurring cybersecurity solutions. Increasing adoption of low-code/no-code platforms like Digital Desk can attract large global brands looking for enterprise service orchestration. Company's experience in designing, implementing, and maintaining data centers is a considerable advantage, and efforts are underway to achieve empanelment. Many smart city projects necessitate robust data center infrastructure, which could serve as a crucial growth area.
- **Margins to reach mid-teens:** EBITDA margin for the quarter stood at 9.5%. The company clarified that this was adversely affected by a one-off expense incurred during the period. Excluding this exceptional cost, the adjusted margin would have exceeded 11%. Looking ahead, the company is targeting mid-teen margins and remains optimistic about achieving in the next 6 to 7 quarters. via cost reduction techniques and selling Digital desk more as it has a Gross Margin of >50%.

Valuation: ADSL 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 have introduced FY27E and expect Revenue/EBIT/PAT to grow at a CAGR of 18.0%/ 27.6%/ 30.1% respectively over FY24-FY27E. We maintain our rating to **BUY** with a revised target price of **INR288** implying a PE of 20x on Sep-FY27E EPS of INR14.4.

Financial Snapshot

Year end: March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	6,601	6,871	8,076	9,473	11,254
Gross Profit (INR Mn.)	1,469	1,416	1,696	2,092	2,591
Gross Profit Margin (%)	18.7	(3.6)	19.7	23.3	23.9
EBIT (INR Mn.)	713	670	850	1,097	1,392
EBIT Margin (%)	10.8	9.8	10.5	11.6	12.4
EPS (INR)	1.3	8.3	10.1	12.8	15.9

Source: Company, CEBPL

October 30, 2024

CMP (Rs.)	267
Target Price (Rs.)	288
Potential Upside (%)	7.9

*CMP as on 29th Oct 2024

Company Info

BB Code	ALDS IN Equity
ISIN	INE102I01027
Face Value (Rs.)	5.0
52 Week High (Rs.)	319.5
52 Week Low (Rs.)	112.6
Mkt Cap (Rs. bn.)	14.9
Mkt Cap (\$ mn.)	177.2
Shares o/s (Mn.)/Float	55.8/48
FY24 EPS (Rs.)	8.3
FY27E EPS (Rs.)	15.9

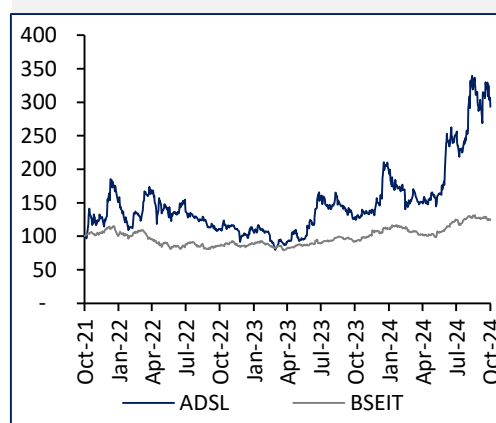
Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	51.71	52.09	52.19
FII's	2.01	1.81	1.01
DII's	0.00	0.00	0.00
Public	46.28	46.10	46.80

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	24.7	46.2	34.4
ADSL Ltd.	193.0	164.3	129.7

Rebased Price Performance



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Sequential Operating Performance

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Income Statement						
Revenues (INR Mn.)	1,690	1,702	1,711	1,768	1,791	2,030
Gross Profit (INR mn.)	342	364	387	324	333	367
<i>Gross Margin (%)</i>	20.2	21.4	22.6	18.3	18.6	18.1
EBIT (INR mn.)	138	164	166	203	145	144
<i>EBIT Margin (%)</i>	8.1	9.6	9.7	11.5	8.1	7.1
RPAT (INR mn.)	86	115	117	141	104	116
APAT (INR mn.)	86	115	117	141	104	116
Basic EPS (INR)	1.6	2.1	2.1	2.5	1.9	1.8
Operating Metrics						
Revenue - Geography (%)						
India	31.0	32.0	32.0	34.0	34.1	36.9
Rest of the world	69.0	68.0	68.0	66.0	65.9	63.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue - Segments (%)						
Solutions	16.0	16.0	15.0	21.0	22.9	26.1
Services	84.0	84.0	85.0	79.0	77.1	73.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
Revenue – Customer Profile (%)						
Government Customers	17.0	15.0	16.0	21.0	23.5	26.6
Enterprise	83.0	85.0	84.0	79.0	76.5	73.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, CECL

CEBPL Estimates vs Actual for Q2FY25

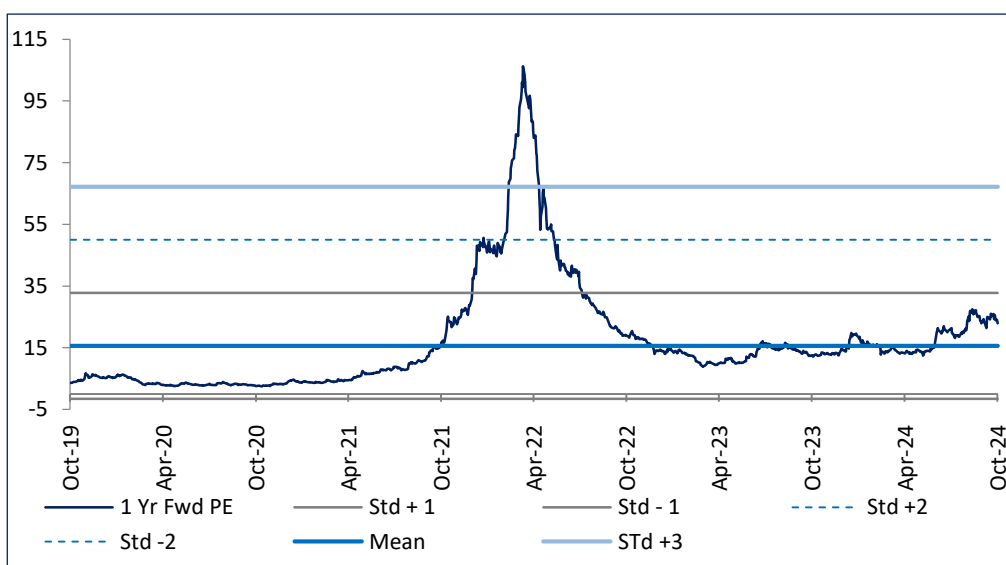
ADSL	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	CEBPL Est.	Dev (%)
Revenues (INR mn.)	2,030	1,702	19.3	1,791	13.3	1,841	10.3
Employee Cost	1,663	1,339	24.2	1,458	14.0		
Gross Profit (INR mn.)	367	364	1.0	333	10.2	399	(8.1)
Gross Margin (%)	18.1	21.4	(328) bps	18.6	(51) bps	21.7	(361) bps
Other costs	175	158	10.5	142	23.6		
Depreciation	48	42	16.6	47	4.1		
EBIT (INR mn.)	144	164	(12.3)	145	(0.8)	195	(26.3)
EBIT Margin (%)	7.1	9.6	(254) bps	8.1	(101) bps	10.6	(352) bps
Other Income	38	3	1,200.0	10	273.3		
Interest	25	11	130.9	14	84.1		
PBT (INR mn.)	156	156	0.2	141	10.5		
Tax	40	41	(2.4)	37	7.8		
Adj. PAT (INR mn.)	116	115	1.1	104	11.4	142	(18.1)
Basic EPS (INR)	1.8	2.1	(12.9)	1.9	(2.7)	2.6	(28.4)

Source: Company, CEBPL

Change in Estimates

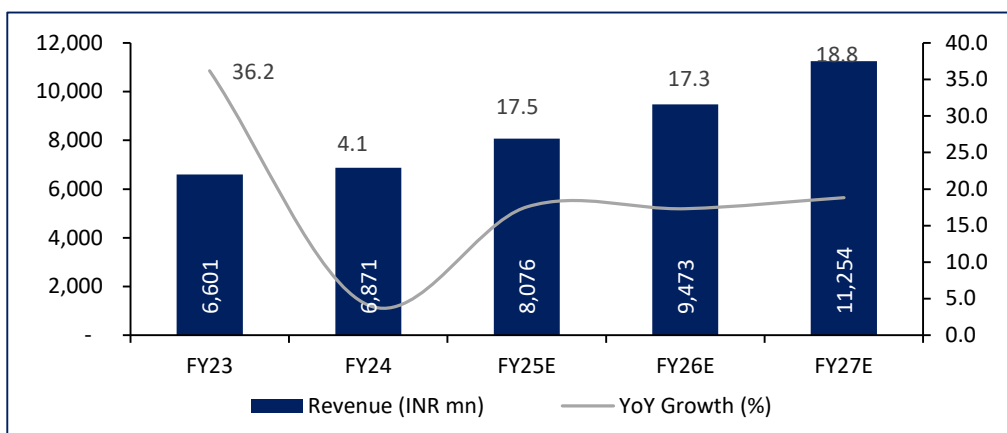
Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	Old	New	Dev. (%)	Old	New	Dev. (%)	New
Revenues	7,699	8,076	4.9	9,418	9,473	0.6	11,254
Gross Profit Margin (%)	22.1	21.0	(109) bps	24.1	22.1	(207) bps	23.0
EBIT	862	850	(1.4)	1,190	1,097	(7.8)	1,392
EBIT Margin (%)	11.2	10.5	(67) bps	12.6	11.6	(105) bps	12.4
EPS	11.3	10.1	(10.8)	15.7	12.8	(18.1)	15.9

Historical 1 Yr Fwd PE Band



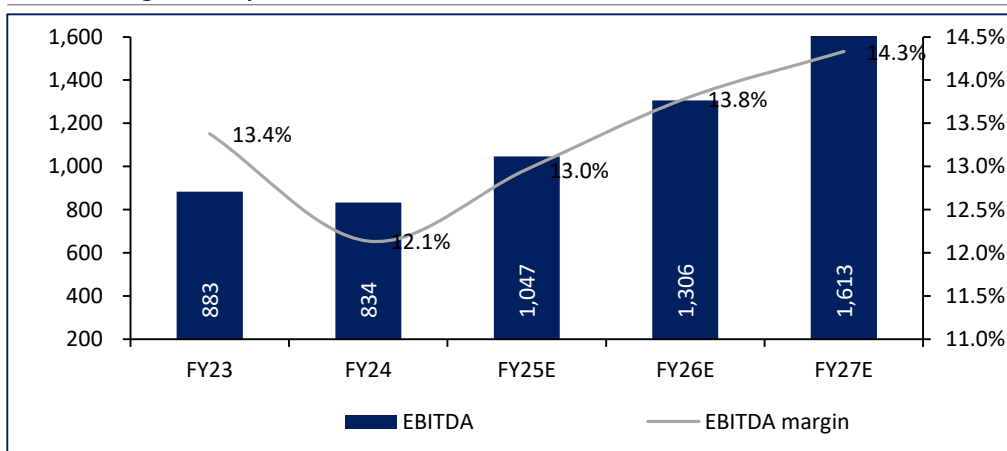
Source: Company, CEBPL

Revenues to head towards INR10bn target



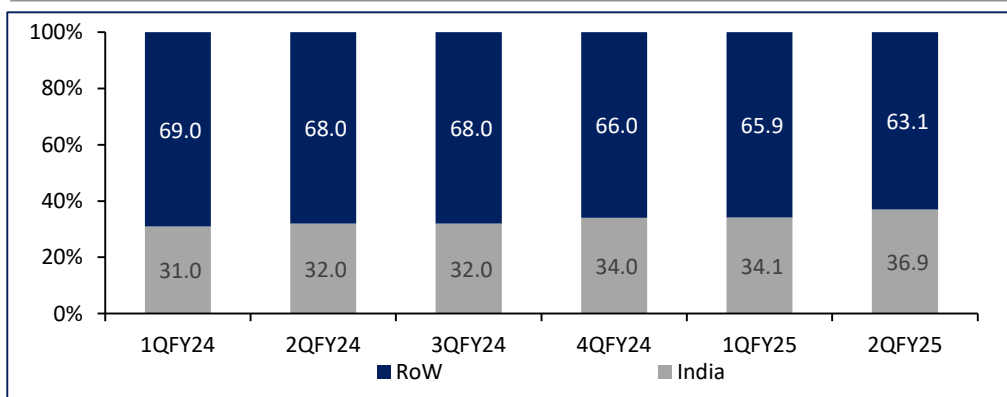
Source: Company, CEBPL

EBITDA Margins to expand to mid-teens



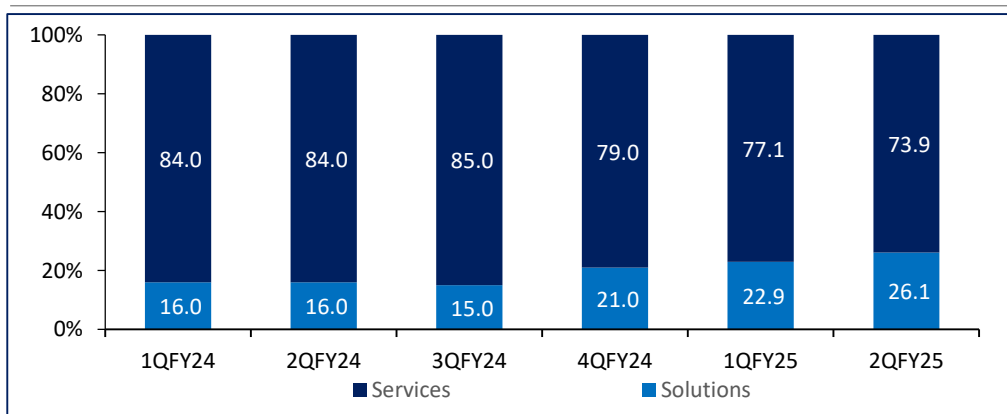
Source: Company, CEBPL

Revenue share of India business expanding



Source: Company, CEBPL

Increasing share of Solutions business



Source: Company, CEBPL

Management Call Highlights

- During Q2FY25, the company generated 36.9% of its revenue from India, compared to 32.0% in Q2FY24. The remaining 63.1% of revenue came from the rest of the world, down from 68.0% in Q2FY24.
- In Q2FY25, the Company witnessed robust revenue growth sequentially and showed a 19.3% increase YoY. Management noted strong growth trends in the Indian market and expressed optimism about future performance. They highlighted strong domestic demand and observed initial signs of improvement in international business, suggesting resilience in the coming quarters.
- ADSL increased its revenue share from Solutions to 26% in Q2FY25, up from 16% in Q2FY24.
- In Q2FY25, Company's net cash balance rose and Days Sales Outstanding (DSO) improved to 72 days, reflecting a positive trend.
- ADSL has been selected as the total IT outsourcing provider for the largest bank in the United Arab Emirates, a leading global financial institution. The bank offers comprehensive banking services, including corporate, retail, private, and investment banking. ADSL will provide Digital Workplace Management, End User Support, IT Helpdesk (in English and Arabic), Data Center support, and Critical Infrastructure/Major Incident Management services.
- ADSL has secured a project with a global energy leader specializing in oil, gas, petrochemicals, and alternative energy. Renowned for its commitment to quality and transparency, this client responsibly delivers affordable energy. Allied Digital will provide IT Infrastructure Management Services and NOC services.
- ADSL has secured a contract with a global leader in silicon carbide (SiC) and gallium nitride (GaN) technologies, serving sectors like electric vehicles and aerospace. Services include 24/7 Global Service Desk support, on-site End User support, IT infrastructure monitoring, and Cybersecurity.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	6,601	6,871	8,076	9,473	11,254
Gross profit	1,469	1,416	1,696	2,092	2,591
EBITDA	883	834	1,047	1,306	1,613
Depreciation	170	164	197	209	221
EBIT	713	670	850	1,097	1,392
Other income	57	12	56	61	62
Interest Expenses	40	52	58	52	79
Exceptional Item	-	-	-	-	-
RPAT	69	458	625	813	1,010
APAT	537	458	625	813	1,010
EPS (Rs)	1.3	8.3	10.1	12.8	15.9

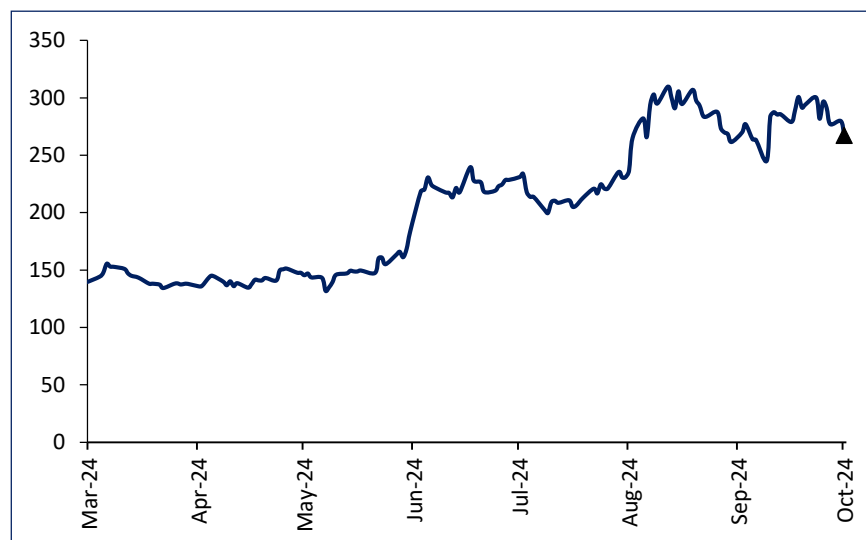
Balance Sheet (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Fixed Assets	1,406	1,523	1,534	1,556	1,634
Goodwill & Intangible assets	1,240	1,267	1,267	1,267	1,267
Investments	62	62	62	62	62
Cash & Cash equivalents	835	1,379	1,342	1,547	1,797
Other Non Current Assets	403	449	534	635	755
Other Current Assets	3,002	3,100	3,407	3,758	4,148
Total Assets	6,949	7,780	8,146	8,824	9,663
Shareholders Funds	5,360	5,786	6,289	6,939	7,748
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	8,146	8,824	9,663

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	470	676	519	882	1,133
Cash flows from Investing	(117)	(29)	45	40	(17)
Cash flows from financing	(111)	(102)	(58)	(52)	(79)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenues	36.2	4.1	17.5	17.3	18.8
Gross Profit	18.7	(3.6)	19.7	23.3	23.9
EBITDA	26.1	(5.6)	25.6	24.7	23.5
EBIT	43.3	(6.0)	26.8	29.1	26.8
Margin Ratios (%)					
Gross Profit Margin	22.2	20.6	21.0	22.1	23.0
EBITDA Margin	13.4	12.1	13.0	13.8	14.3
EBIT Margin	10.8	9.8	10.5	11.6	12.4
Profitability (%)					
Return on equity	1.3	7.9	9.9	11.7	13.0
Return on invested capital	9.2	7.6	9.3	11.0	12.6
Return on capital employed	11.5	9.6	11.5	13.7	15.7
Valuation					
OCF / Net profit (%)	582.8	147.5	61.1	79.7	82.4
EV / EBITDA (x)	4.3	9.2	8.3	6.5	5.1
Book Value per share (x)	95.9	103.8	99.2	109.5	122.2
Free Cash flow Yield (%)	7.0	7.2	4.7	8.4	10.2

Source: Company, CEBPL

Historical recommendations and target price: Allied Digital Services Ltd.



Allied Digital Services Ltd.

1.	01-03-2024	Outperform,	Target Price 217
2.	27-05-2024	Outperform,	Target Price 209
3.	02-08-2024	Buy,	Target Price 265
4.	30-10-2024	Buy,	Target Price 288

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security is expected to show below 0% over the next 12 months

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