

## Allied Digital Services Ltd.

BUY

Choice

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

ADSL reported Q1FY25 consolidated revenues at INR 1,791mn, up 1.3% QoQ and 6.0% YoY amidst global headwinds. Standalone Revenues for Q1FY24 were higher by ~13% on a YoY basis, driven by disciplined execution of the order book. RPAT for the quarter came at INR140mn (+21.3% YoY) with EPS at INR1.9. Company won INR1,500mn 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 FY24, it had an order book of INR14bn to be executed in next 3-4 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. There has been delay in decision making by customers due to macro-uncertainties and high inflation in US. ADSL expects recovery in coming quarters with Indian business growing robustly. Business visibility is strong, with robust performance in the Indian market and early signs of improvement internationally. 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. Of 100 smart cities announced earlier, only 22 have gone live, of which 14 has been allotted to ADSL. There are around 3-4 large competitors for the same while it mentions to be at the forefront of the race. It is in advanced stages of communication with implementing one of the smart city projects, to be announced in next 2-3 quarters. 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 also growing in emerging countries like UK, Africa and Asia-Pacific, presenting opportunities beyond India. Moreover, entering the non-penetrated enterprise market, leveraging capabilities for Global Capability Centers (GCCs), and diversifying into direct access into global markets can further capitalize on new opportunities. 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 centres is a strong advantage. Many smart city projects require robust data centre infrastructure, which can be a key area for growth.

- **Margins to reach mid-teens:** EBITDA margins for the quarter came at 10.7% (flattish YoY). Company mentioned that margins are bottomed out this quarter and aims to achieve mid-teen margins in next 6-8 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. It is poised for 20% CAGR for FY26E as it is into two growth sectors viz. smart/safe cities and data centres. We downgrade our rating to **BUY** and arrive at a revised target price of INR265 implying a P/E of 17x on FY26E EPS of INR15.7.

## Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	4,847	6,601	6,871	7,699	9,418
Gross Profit (INR Mn.)	1,237	1,469	1,416	1,700	2,274
Gross Profit Margin (%)	25.5	22.2	20.6	22.1	24.1
EBIT (INR Mn.)	498	713	670	862	1,190
EBIT Margin (%)	10.3	10.8	9.8	11.2	12.6
EPS (INR)	11.3	1.3	8.3	11.3	15.7

Source: Company, CEBPL

August 02, 2024

CMP (Rs.)	214
Target Price (Rs.)	265
Potential Upside (%)	24.4

## Company Info

BB Code	ALDS IN Equity
ISIN	INE102I01027
Face Value (Rs.)	5.0
52 Week High (Rs.)	255.8
52 Week Low (Rs.)	110.6
Mkt Cap (Rs. bn.)	11.9
Mkt Cap (\$ mn.)	142.1
Shares o/s (Mn.)/Float	55.4/48
FY24 EPS (Rs.)	8.3
FY26E EPS (Rs.)	15.7

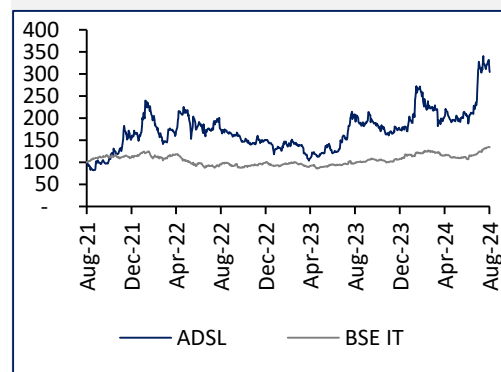
## Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	52.09	52.19	52.26
FII's	1.81	1.01	1.08
DII's	0.00	0.00	0.00
Public	46.10	46.80	46.66

## Relative Performance (%)

YTD	3Y	2Y	1Y
BSE IT	34.5	40.2	35.6
ADSL Ltd.	204.2	74.5	57.9

## Rebased Price Performance



## CA Vatsal Vinchhi, Analyst

Email: vatsal.vinchhi@choiceindia.com  
Ph: +91 22 6707 9224

## Ashutosh Murarka, Associate

Email: ashutosh.murarka@choiceindia.com  
Ph: +91 22 6707 9442

## Sequential Operating Performance

	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
<b>Income Statement</b>						
Revenues (INR Mn.)	1,662	1,690	1,702	1,711	1,768	1,791
Gross Profit (INR mn.)	357	342	364	387	324	333
Gross Margin (%)	21.5	20.2	21.4	22.6	18.3	18.6
EBIT (INR mn.)	143	138	164	166	203	145
EBIT Margin (%)	8.6	8.1	9.6	9.7	11.5	8.1
RPAT (INR mn.)	(373)	86	115	117	141	104
APAT (INR mn.)	95	86	115	117	141	104
Basic EPS (INR)	1.7	1.6	2.1	2.1	2.5	1.9
<b>Operating Metrics</b>						
<b>Revenue - Geography (%)</b>						
India	25.0	31.0	32.0	32.0	34.0	34.1
Rest of the world	75.0	69.0	68.0	68.0	66.0	65.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Revenue - Segments (%)</b>						
Solutions	12.0	16.0	16.0	15.0	21.0	22.9
Services	88.0	84.0	84.0	85.0	79.0	77.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Revenue – Customer Profile (%)</b>						
Government Customers	11.8	17.0	15.0	16.0	21.0	23.5
Enterprise	88.2	83.0	85.0	84.0	79.0	76.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, CEBPL

## CEBPL Estimates vs Actual for Q1FY25

ADSL	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	CEBPL Est.	Dev (%)
Revenues (INR mn.)	1,791	1,690	6.0	1,768	1.3	1,853	(3.3)
Employee Cost	1,458	1,348	8.2	1,444	1.0		
Gross Profit (INR mn.)	333	342	(2.5)	324	2.8	404	(17.5)
Gross Margin (%)	18.6	20.2	(162) bps	18.3	26 bps	21.8	(320) bps
Other costs	142	163	(13.2)	81	75.4		
Depreciation	47	41	14.0	40	16.3		
EBIT (INR mn.)	145	138	5.3	203	(28.7)	178	(18.6)
EBIT Margin (%)	8.1	8.1	(5) bps	11.5	(341) bps	9.6	(151) bps
Other Income	10	2	573.3	1	621.4		
Interest	14	14	(2.1)	17	(17.4)		
PBT (INR mn.)	141	125	13.0	188	(24.9)		
Tax	37	39	(5.4)	47	(21.1)		
Adj. PAT (INR mn.)	104	86	21.3	141	(26.2)	123	(15.2)
Basic EPS (INR)	1.9	1.6	17.5	2.5	(25.7)	2.2	(14.7)

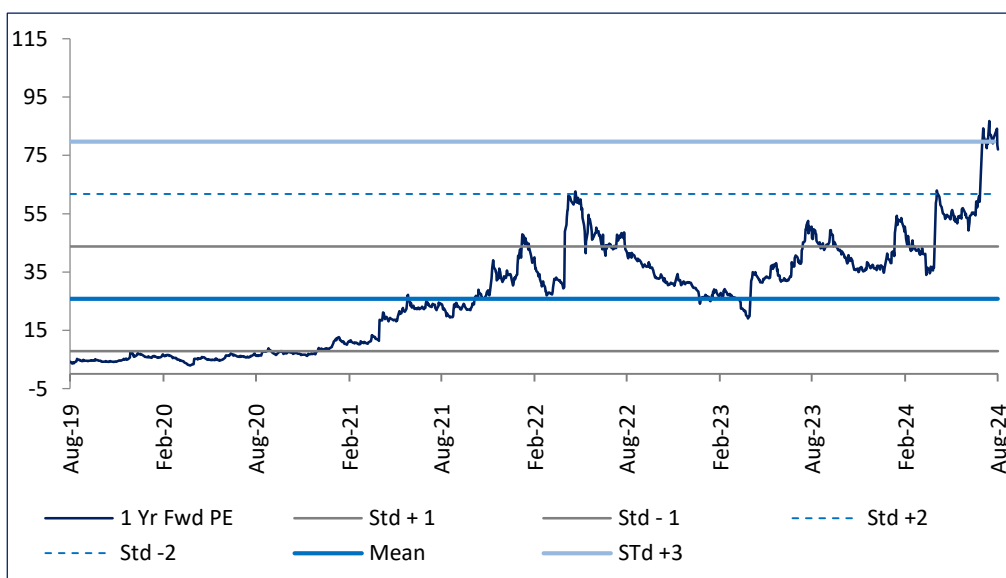
Source: Company, CEBPL

## Change in Estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	7,940	7,699	(3.0)	9,617	9,418	(2.1)
Gross Profit Margin (%)	22.8	22.1	(74) bps	24.1	24.1	0 bps
EBIT	844	862	2.2	1,183	1,190	0.5
EBIT Margin (%)	10.6	11.2	57 bps	12.3	12.6	33 bps
EPS	10.8	11.3	5.1	15.5	15.7	1.1

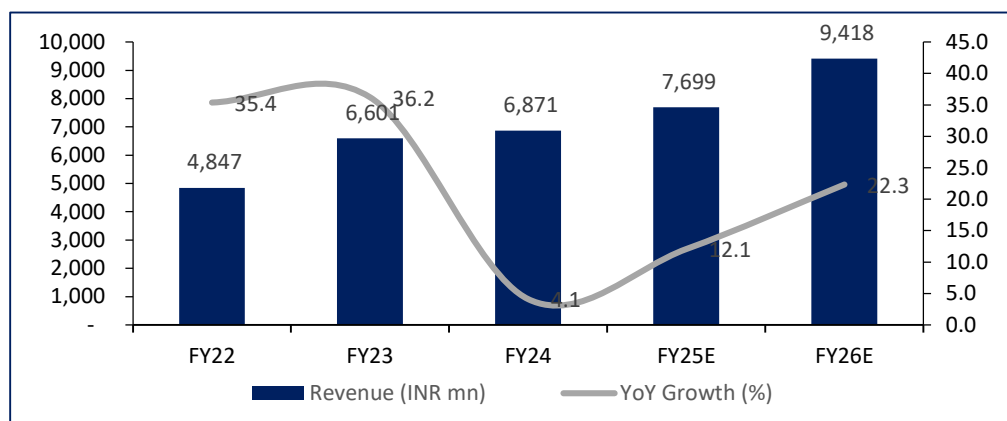
Source: Company, CEBPL

## Historical 1 Yr Fwd PE Band



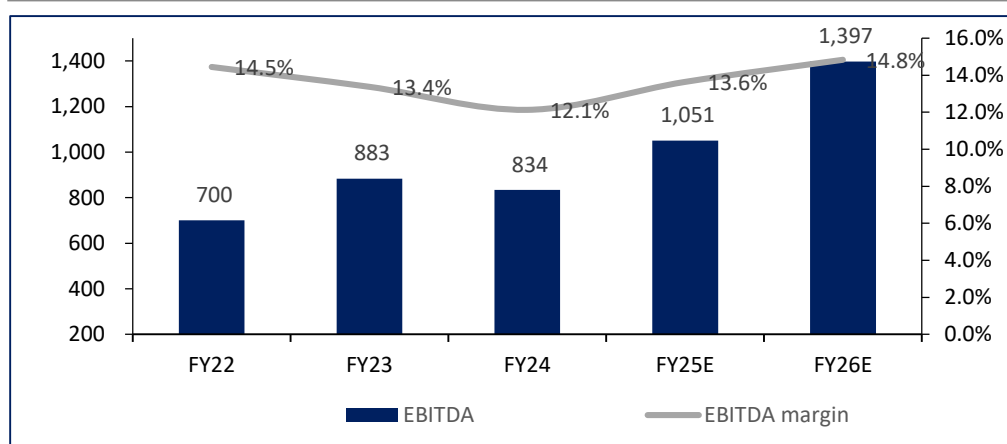
Source: Company, CEBPL

Revenues to head towards INR10bn target



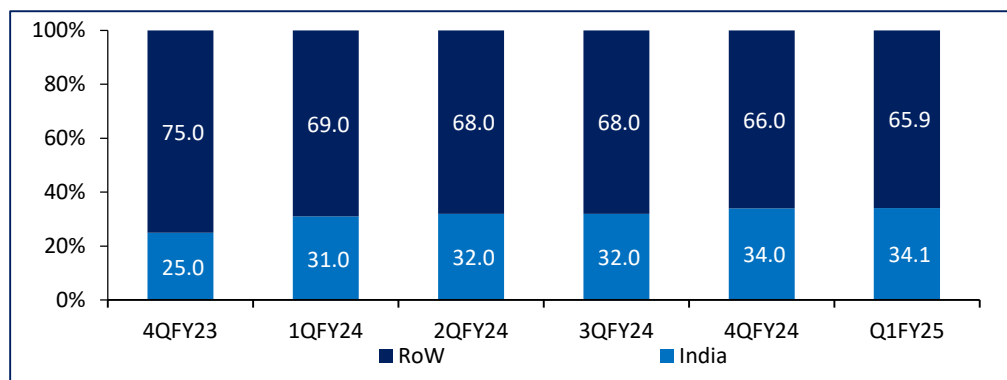
Source: Company, CEBPL

EBITDA Margins to expand to mid-teens



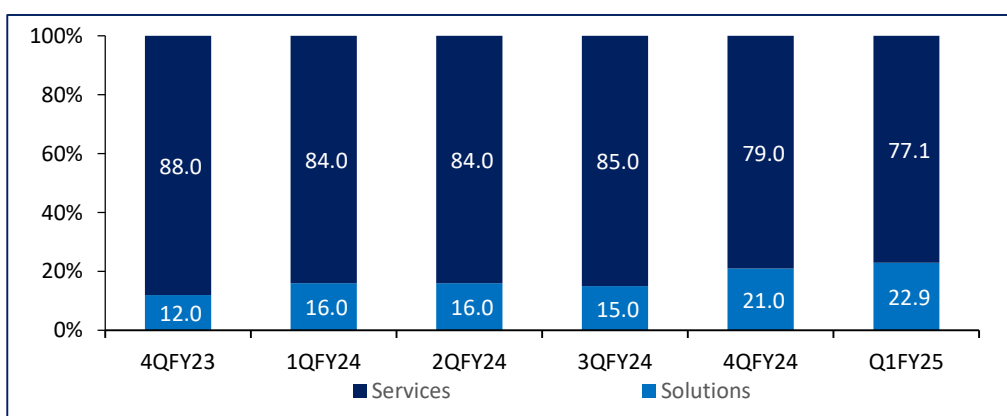
Source: Company, CEBPL

Revenue share of India business expanding



Source: Company, CEBPL

Increasing share of Solutions business



Source: Company, CEBPL

## Management Call Highlights

- During Q1FY25, the company generated 34.1% of its revenue from India, compared to 31.0% in Q1FY24. The remaining 65.9% of revenue came from the rest of the world, down from 69.0% in Q1FY24.
- In Q1FY25, the Company's revenue growth was relatively flat sequentially and showed a 4% increase YoY. This was attributed to subdued market conditions in India due to the general elections, combined with a muted global performance amid macroeconomic uncertainties. However, the management remains optimistic about future performance, citing strong demand in India coupled with international business showing initial signs of improving, a positive indicator for resilience in the coming quarters.
- ADSL increased its revenue share from Solutions to 23% in Q1FY25, up from 16% in Q1 FY24.
- Allied Digital was awarded a contract to manage Infrastructure Services for a customer in the glass, ceramics, and concrete manufacturing sector. This client specializes in high-performance refractory materials, solutions, and services for global iron and steel manufacturers, and is based in East India.
- Allied Digital also won a contract to provide Infrastructure Management Services for a leading real estate development company in northern India. The company, which initially focused on affordable housing, is now entering the mid-housing segment with an emphasis on quality, value, reliability, and adherence to global standards.
- ADSL welcomed Mr. Ramanan Ramanathan, formerly of NITI Aayog, TCS, and CMC, to its leadership council as Global Head of Strategy – Growth, Innovation & Partnerships. His extensive experience and valuable insights will be instrumental as it aims to drive scale and create value.
- One of India's largest integrated chemical companies, with an annual revenue of approximately INR50bn, producing around 900 products and 400 formulations, serving 83 countries, and having subsidiaries in Brazil, China, Ireland, the UAE, the UK, and the USA, has chosen Allied Digital to handle Infrastructure Management Services for their West Region offices and annual maintenance contract services for their Mumbai Region offices.

## Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	4,847	6,601	6,871	7,699	9,418
Gross profit	1,237	1,469	1,416	1,700	2,274
EBITDA	700	883	834	1,051	1,397
Depreciation	203	170	164	188	208
EBIT	498	713	670	862	1,190
Other income	26	57	12	43	57
Interest Expenses	26	40	52	53	66
Exceptional Item	-	-	-	-	-
RPAT	610	69	458	627	867
APAT	610	537	458	627	867
EPS (Rs)	11.3	1.3	8.3	11.3	15.7

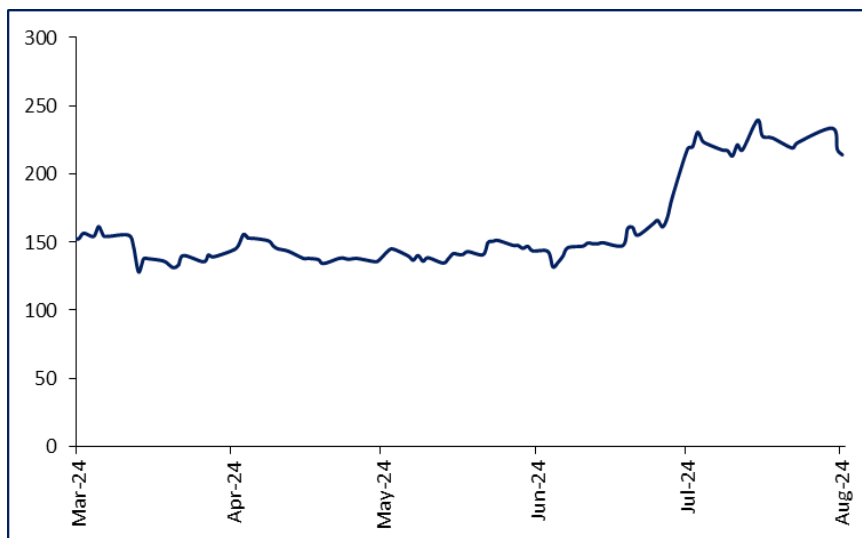
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Fixed Assets	1,295	1,406	1,523	1,534	1,557
Goodwill & Intangible assets	1,206	1,240	1,267	1,267	1,267
Investments	95	62	62	62	62
Cash & Cash equivalents	591	835	1,379	1,340	1,588
Other Non Current Assets	397	403	449	534	635
Other Current Assets	3,348	3,002	3,100	3,407	3,758
<b>Total Assets</b>	<b>6,933</b>	<b>6,949</b>	<b>7,780</b>	<b>8,145</b>	<b>8,866</b>
Shareholders Funds	5,314	5,360	5,786	6,287	6,981
Minority Interest	250	354	403	403	403
Borrowings	419	345	596	420	406
Lease Liability	-	-	-	-	-
Other Non- Current Liabilities	272	121	231	250	271
Other Current Liability	678	769	764	784	805
<b>Total Equity &amp; Liabilities</b>	<b>6,933</b>	<b>6,949</b>	<b>7,780</b>	<b>8,145</b>	<b>8,866</b>

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	146	470	676	522	973
Cash flows from Investing	(60)	(117)	(29)	32	34
Cash flows from financing	(77)	(111)	(102)	(53)	(66)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
<b>Growth Ratios (%)</b>					
Revenues	35.4	36.2	4.1	12.1	22.3
Gross Profit	33.8	18.7	(3.6)	20.1	33.8
EBITDA	56.8	26.1	(5.6)	26.0	33.0
EBIT	115.2	43.3	(6.0)	28.6	38.0
<b>Margin Ratios (%)</b>					
Gross Profit Margin	25.5	22.2	20.6	22.1	24.1
EBITDA Margin	14.5	13.4	12.1	13.6	14.8
EBIT Margin	10.3	10.8	9.8	11.2	12.6
<b>Profitability (%)</b>					
Return on equity	11.5	1.3	7.9	10.0	12.4
Return on invested capital	7.2	9.2	7.6	9.5	11.8
Return on capital employed	8.0	11.5	9.6	11.7	14.8
<b>Valuation</b>					
OCF / Net profit (%)	19.9	582.8	147.5	61.3	82.5
EV / EBITDA (x)	8.6	4.3	9.2	7.1	5.1
Book Value per share (x)	98.1	95.9	103.8	113.5	126.1
Free Cash flow Yield (%)	0.5	7.0	7.2	5.5	10.6

Source: Company, CEBPL

## Historical recommendations and target price: Allied Digital Services Ltd.



### Allied Digital Services Ltd.

- 01-03-2024 Outperform, Target Price 217
- 27-05-2024 Outperform, Target Price 209
- 02-08-2024 Buy, Target Price 265

### Institutional Research Team

Kripashankar Maurya	AVP - Institutional Research – Automobiles/Defence/Healthcare	kripashankar.maurya@choicelndia.com	+91 22 6707 9949
CA Vatsal Vinchi	Analyst - Information Technology	vatsal.vinchi@choicelndia.com	+91 22 6767 9224
Deepika Murarka	Analyst - Pharmaceuticals	deepika.murarka@choicelndia.com	+91 22 6707 9513
Vijay Singh Gaur	Analyst - BFSI	vijay.gaur@choicelndia.com	+91 22 6707 9422
Ashutosh Murarka	Associate – Cement / Information Technology	ashutosh.murarka@choicelndia.com	+91 22 6707 9442
Putta Ravi Kumar	Associate - Goods & Defence	ravi.putta@choicelndia.com	+91 22 6707 9908
Aayush saboo	Associate – Real Estate	aayush.saboo@choicelndia.com	+91 22 6707 9811
Maitri Sheth	Associate – Pharmaceuticals	maitri.sheth@choicelndia.com	+91 22 6707 9811
Bharat Kumar Kudikyala	Associate – Building Material	bharat.kudikyala@choicelndia.com	+91 22 6707 9798
CA Sheetal Murarka	Vice President - Institutional Sales	sheetal.murarka@choicelndia.com	+91 22 6707 9857
Nitesh Jalan	AVP – Institutional Sales	nitesh.jalan@choicelndia.com	+91 22 6707 9886 /877 /878 /879

### CHOICE RATING DISTRIBUTION & METHODOLOGY

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

### Disclaimer

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Choice Equity Broking Private Limited-Research Analyst - INH00000222. (CIN. NO.: U65999MH2010PTC198714). Reg. Add.: Sunil Patodia Tower, J B Nagar, Andheri(East), Mumbai 400099. Tel. No. 022-6707 9999

Compliance Officer-Prashant Salian. Tel. 022-6707 9999-Ext. 896. Email- [Compliance@choicelndia.com](mailto:Compliance@choicelndia.com)

Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834. Email- [ig@choicelndia.com](mailto:ig@choicelndia.com)

Investment in securities market are subject to market risks. Read all the related documents carefully before investing. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors

This Research Report (hereinafter referred as "Report") has been prepared by Choice Equity Broking Private Limited as a Research Entity (hereinafter referred as "CEBPL RE" Limited. The Research Analysts, strategists are principally responsible for the preparation of "CEBPL RE" research. The research analysts have received compensation based upon various factors, which may include quality of research, investor client feedback, stock picking, competitive factors and firm revenues etc.

Whilst CEBPL has taken all reasonable steps to ensure that this information is correct, CEBPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and CEBPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily an indication of future performance.

**General Disclaimer:** This 'Report' is strictly meant for use by the recipient and is not for circulation. This Report does not take into account particular investment objectives, financial situations or specific needs of individual clients nor does it constitute a personal recommendation. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through CEBPL nor any solicitation or offering of any investment / trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this "Report" should rely on information/data arising out of their own Study/investigations. It is advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This 'Report' has been prepared on the basis of publicly available information, internally developed data and other sources believed by CEBPL to be reliable. CEBPL or its directors, employees, affiliates or representatives shall not be responsible for, or warrant for the accuracy, completeness, adequacy and reliability of such information / opinions / views. Though due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of CEBPL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

The price and value of the investments referred to in this Report and the income from them may tend to go down as well as up, and investors may incur losses on any investments. Yester performance shall not be a guide for future performance. CEBPL does not provide tax advice to its clients, and all investors are strongly advised to take advice of their tax advisers regarding taxation aspects of any potential investment. Opinions are based on the current scenario as of the date appearing on this 'Report' only. CEBPL does not undertake to advise you as to any change of our views expressed in this "Report" may differ on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold CEBPL, its employees and associates responsible for any losses, damages of any type whatsoever.

Statements on ownership and material conflicts of interest, compensation - CEBPL and Associates reciprocates to the best of the knowledge and belief of CEBPL/ its Associates/ research Analyst who is preparing this report.

**Disclosures of Interest (Additional):**

1. "CEBPL", its research Analyst(s), or its associates or relatives of the Research Analyst does not have any financial interest in the company(ies) covered in this report.
2. "CEBPL" its research Analyst, or its associates or relatives of the research analyst
3. affiliates collectively do not hold more than 1 of the securities of the company(ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
4. "CEBPL", its research analyst, his/her associate, his/her relative, do not have any other material conflict of interest at the time of publication of this research report.
5. "CEBPL", its research analyst, and its associates have not received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in this report, in the past twelve months.
6. "CEBPL", its research analyst, or its associates have not managed or co-managed in the previous twelve months, a private or public offering of securities for the company (ies) covered in this report.
7. "CEBPL", or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party, in connection with the research report.
8. CEBPL research analyst has not served as an Officer, Director, or employee of the company (ies) covered in the Research report.
9. "CEBPL", its research analyst has not been engaged in market making activity for the company(ies) covered in the Research report.

Details of Associates of CEBPL and Brief History of Disciplinary action by regulatory authorities are available on our website i.e. [www. https://choiceindia.com/research-listing](https://choiceindia.com/research-listing)

The details of CEBPL, its research analyst and its associates pertaining to the companies covered in the Research report are given below

Sr. No.	Particulars	Yes / No
1.	Whether compensation has been received from the company(ies) covered in the Research report in the past 12 months for investment banking transaction by CEBPL	No
2	Whether Research Analyst, CEBPL or its associates or relatives of the Research Analyst affiliates collectively hold more than 1 of the company(ies) covered in the Research report	No
3.	Whether compensation has been received by CEBPL or its associates from the company(ies) covered in the Research report	No
4.	CEBPL or its affiliates have managed or co-managed in the previous twelve months a private or public offering of securities for the company(ies) covered in the Research report	No
5.	CEBPL, its research analyst, his associate, or its associates have received compensation for investment banking or merchant banking or brokerage services or for any other products or services from the company(ies) covered in the Research report, in the last twelve months	No

**Copyright:** The copyright in this research report belongs exclusively to CEBPL. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the CEBPL's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

This "Report" is for distribution only under such circumstances as may be permitted by applicable law. This "Report" has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This "Report" is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither CEBPL nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this "report" or lack of care in this report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Information barriers may be relied upon by CEBPL, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of CEBPL.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by CEBPL with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior written consent of CEBPL and CEBPL accepts no liability whatsoever for the actions of third parties in this respect.

The details of CEBPL, its research analyst and its associates pertaining to the companies covered in the Research report are given below