

CMP: INR 127

Rating: Buy

Target Price: 249

Stock Info

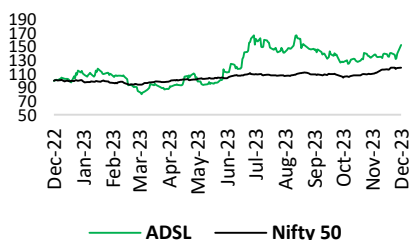
BSE	532875
NSE	ADSL
Bloomberg	ALDS IN
Reuters	ADIS.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR Mn)	275
Mkt Cap (INR Mn)	7,579
52w H/L (INR)	156 / 72
Avg Yearly Vol (in 000')	170

Shareholding Pattern %

(As on Sept, 2023)

Promoters	52.39
Public & Others	47.61

ADSL Vs Nifty



Source: Arihant Research

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Allied Digital Services Limited (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. The company's registered office is in Mumbai and it has a presence in India, USA, UK, Singapore, Australia and Finland. Revenue from global customers is ~78% and 28% from domestic.

Investment Rationale:

- **Experienced Management and wide range of services:** It 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, the business has built solid relationships with reputable clients.
- **Pioneer in offering smart city solutions:** Strong order in the pipeline, Smart city project executed in 12 cities, discussions for 5 more in Lucknow, Sholapur, and Punjab, and ongoing operations in Solapur and Lucknow, with a focus on cloud services and smart city projects.
- **Strong order book:** The company has secured multiple significant contracts, including one with a leading commercial real estate firm in North America, encompassing comprehensive IT Managed Services. Additionally, contracts have been secured with a franchising management and real estate company, as well as the parent company for renowned sports equipment and apparel brands. These contracts involve a range of IT services and support, highlighting ADSL's growing presence in diverse sectors.
- **Company won multiple contracts:** Currently contract wins include Adani Wilmar Limited, Coromandel International, and SBI Life Insurance in India, as well as contracts with real estate firm, bank, and energy companies in the US. The company has added lot of logos on the enterprise managed system integration projects such as Lodha group, Tata Motors group, the Vedanta group.
- **Robust partnership:** Collaborating seamlessly with major IT services and global consulting firms, company forge a robust partnership to deliver unparalleled customer service.
- **Expand Sales Channels:** Enhance employee skills through targeted training, fostering growth. Broaden sales and marketing impact by strengthening direct channels, maximizing outreach. Elevate organizational performance through strategic investments in both human capital and market reach.
- **Outlook:** The company is resilient on the financial front and has strong management to drive future growth with a good client base. Factoring in the above driver, we believe that the company will perform better going ahead. We expect ADSL to achieve more than 20%/ 35% CAGR growth for revenue/ PAT for the next three years. **At a CMP of INR 127, ADSL is trading at a PE of 7.7x/5.1x to its FY25E/FY26E EPS of INR 16.5/24.9. We value the stock on a P/E (x) multiple of 10x its FY26E earnings of INR ~25 EPS to arrive target price of INR 249 with a Buy rating on the stock.**

Exhibit 1: Financial estimates

INR Mn (Consolidated)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	4850	6,600	7590	9032	11019
Growth (%)	35.5%	36.1%	15.0%	19.0%	22.0%
EBITDA	700	880	1100	1359	1712
Growth (%)	55.6%	25.7%	25.0%	23.5%	26.0%
EBITDAM %	14.4%	13.3%	14.5%	15.0%	15.5%
PAT Continuing business	610	540	745	894	1350
PAT (Discontinued Operations)	0	-470			
Reported PAT	610	70	745	894	1350
Adjusted PAT *	370	540			
PAT Margin %	8%	8%	9.8%	9.9%	12.3%
EPS - Continuing Operations	1.02	9.56	13.7	16.5	24.9
EPS – Reported	1.02	1.23			
PE	124.1	102.9	9.2	7.7	5.1

Y/e 31 Mar (INR Mn)	Q2FY24	Q2FY23	YoY (%)	H1 FY24	H1 FY23	YoY (%)
Revenue	1,700	1,670	1.8%	3390	3200	5.9%
EBITDA	210	260	-19.2%	380	390	-2.6%
EBITDA Margin %	12.35%	15.57%	-322bps	11.21%	12.19%	-98bps
PAT	110	180	-38.9%	200	250	-20.0%
PAT Margin %	6%	11%	-431bps	6%	8%	-191bps
EPS - Continuing Operations	2.03	1.52	33.6%	3.55	4.43	-19.9%

Source: Arihant Research

Total Active Clients	2023	2022
Total Active Clients	187	159
Top 5	33%	34%
Top 10	48%	55%
Top 25	75%	81%
Clients with TCV > USD 1mn	51	45

Source: Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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