

CMP: INR 214

Rating: Buy

Target Price: 290

Stock Info

BSE	532875
NSE	ADSL
Bloomberg	ALDS IN
Reuters	ADIS.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR Mn)	274.2
Mkt Cap (INR Mn)	11,835
52w H/L (INR)	256 / 111
Avg Yearly Vol (in 000')	832

Allied Digital services Ltd (ADSL) reported consolidated revenue stood at INR 1,791 Mn, against Q4FY24 of INR 1,768 Mn registering a growth 6.0% YoY/1.3% QoQ. (Below our estimate by 6%)EBITDA stood at INR 191 Mn, against Q4FY24 of INR 243Mn, Registering a growth of 7.3%YoY/ - 21.3%QoQ. (Below our estimate by 33%)On the margins front, EBITDA margin expansion by 13bps YoY& decrease by 308 bps QoQ to 10.7% against 13.8% in Q4FY24. (Margin estimate 13.4%)Consolidated PAT saw a growth of +21.2%YoY/ (26.2)%QoQ to INR 104 Mn against Q4FY24 of INR 141 Mn. (Below our estimate by 40%)

Investment Rationale

Strong order book: ADSL orders exceeding INR 1500 Mn through new wins and multi-year contract renewals. Key contracts include Infrastructure Management Services for a leading northern India real estate developer venturing into the mid-housing segment, and a high-performance refractory materials manufacturer serving global iron and steel makers in East India.

Traction in Infra services: ADSL partnered with one of India's largest integrated chemical companies, which boasts an annual revenue of ~50,000 Mn and a global presence in 83 countries, to manage their infrastructure services.

Shareholding Pattern %

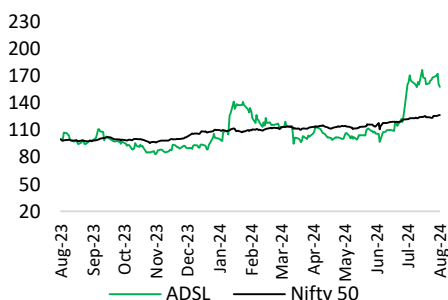
(As on Mar, 2024)

Promoters	52.19
Public & Others	47.81

High Margins in Operations and Maintenance (O&M)and Smart City Projects

Company strategically secures government contracts, especially in the smart city sector, focusing on high-margin, long-term O&M services. With core strengths in O&M. The management's selective approach to O&M projects ensures engagement in only profitable, strategic ventures, thereby ensuring a steady revenue stream and enhanced long-term profitability.

ADSL Vs Nifty



Strategic Expansion and Growth Plans Across Markets

The company anticipates significant market development in the Indian smart cities and towns sector due to government plans for smaller "smart towns." In the enterprise market, there are promising opportunities for deeper penetration within India. Internationally, the company aims to replicate its successes across markets including the US, UK, Europe, Africa, and Asia Pacific. Additionally, the company continues to invest in AI-driven solutions through its Digital Desk, formerly known as ADiTaaS.

Outlook and Valuation: The company aims for over 20% YoY growth, expecting strong revenue growth in Q2 and Q3, and aims for a mid-teens EBITDA margin within 1-2 years. (Revenue expecting INR 800 Cr in FY25 and INR 1000 Cr in FY26). The company aims to leverage the government's plan to develop 1,000 more smart cities, which presents a market opportunity of around INR 5,00,000 Mn over the next 5 years. The company is also enhancing its SaaS platform, Digital Desk, with AI and automation features to improve productivity and workflow automation for its customers. **We expect Allied's revenue, EBITDA, and PAT to grow at a CAGR of 17%/~23%/28%, respectively, over FY24-FY27E. We used DCF model to arrive at a target price of INR 290 per share (Earlier target price of INR per share 229). Accordingly, we maintain our "BUY" rating on the stock**

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Exhibit 1: Financial estimates

Particulars (INR mn)	Q1FY25	Q4FY24	Q1FY24	YoY (%)	QoQ (%)
Revenue	1,791	1,768	1,690	6.0	1.3
Employee cost	348	378	347	0.2	-8.1
Other Expenses	1,252	1,146	1,165	7.5%	-0.2%
EBITDA	191	243	178	7.3	-21.3
<i>EBITDA margin (%)</i>	10.7%	13.8%	10.6%	13bps	-308bps
Depn & amort.	47	40	41	14.0	16.3
EBIT	145	203	138	5.3	-28.7
Interest expense	14	17	14	-2.1	-17.4
Other Income	10	1	2	573.3	621.4
Pretax profit	141	188	125	13.0	-24.9
Tax	37	47	39	-5.4	-21.1
Tax rate (%)	26.3%	25.0%	31.4%	-16.2	5.1
Adjusted Net profit	104	141	86	21.2	-26.2
Exceptionals	-	-	-		
Reported Net Profit	104	141	86	21.2	
EPS (INR)	2	3	2	20.5	-25.7

Source: Arianth Research, Company

Q1FY25 Concall highlights

ADSL aims for over 20% YoY growth, expecting strong revenue growth in Q2 and Q3, and aims for a mid-teens EBITDA margin within 1-2 years. (Revenue expecting INR 800 Cr in FY25 and INR 1000 Cr in FY26)

- Anticipates significant growth with the Indian government's focus on developing smaller "smart towns".
- Identifies further penetration opportunities in the Indian enterprise sector.
- Plans to replicate successes in markets such as the US, UK, Europe, Africa, and Asia Pacific.
- Continues to invest in AI-driven solutions through Digital Desk (formerly ADiTaaS)
- Multiple discussions with new customers, including large contracts.
- India's revenue grew by 17% YoY, and RoW revenue showed initial signs of improvement. Solutions business increased by 52% YoY, making up 23% of total revenue. EBITDA rose by 7% YoY to INR 190 Mn, maintaining an 11% EBITDA margin.
- The company secured over INR 1500 Mn in orders and saw a decline in attrition due to the slowdown in the US IT sector.
- The company sees opportunities in the Indian enterprise market, plans for international expansion, and invests in AI-driven solutions through Digital Desk.
- Company remains debt-free with sufficient cash flow, and focuses on self-reliance in service delivery and cybersecurity engagement.
- US: In the US, the presidential election has led to cautious decision-making, but improved pipeline opportunities are emerging, requiring further adjustments to boost activity levels.
- In India, despite a slight election slowdown, enterprise activity is strong with new wins and renewals. Post-election, company expects new contracts in Q1 FY25, with India seeing 17% YoY growth and the rest of the world up 1% YoY.
- Solutions business grew 52% YoY, (23% of revenues), driven by smart city projects. Government revenues increased 50% YoY to 23% of total revenues, with good opportunities in the Middle East.
- Established a sales office in Dubai; plan to assemble a local team of over 50 members.
- In advanced discussions with potential customers; outlook remains positive.
- Added to the leadership council and expanded the global network of offices.

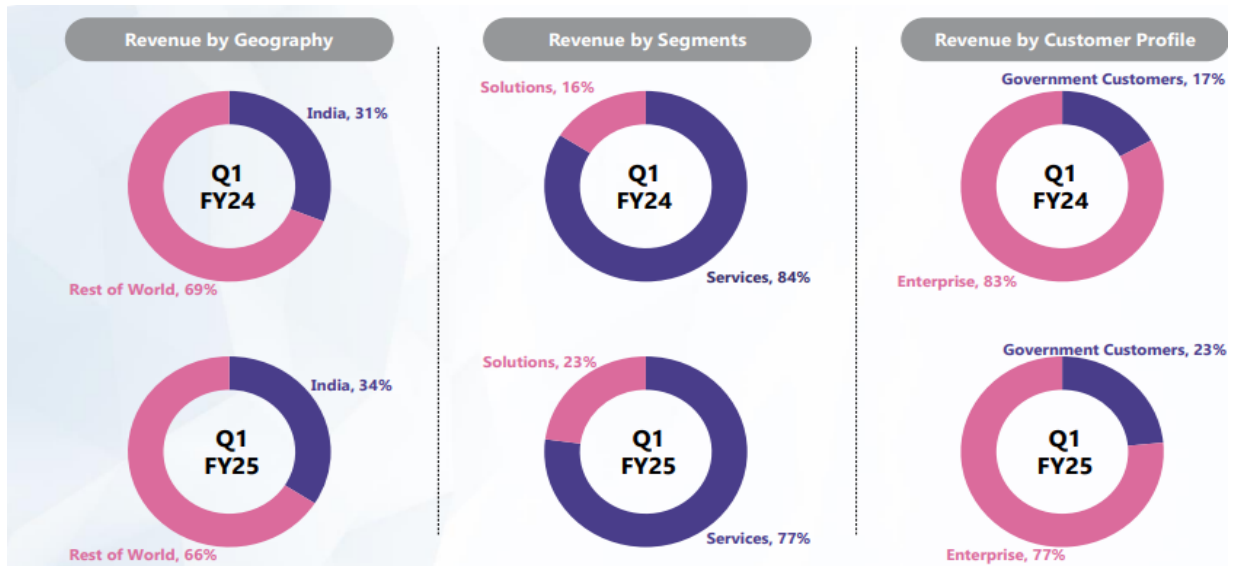
Exhibit 2: Geographical Presence



Exhibit 3: Integrated Business Offering



Exhibit 4: Revenue Mix



Allied Digital Services Ltd. Q1FY25 Result Update

DCF Valuation

Valuation Assumptions	
g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta (2 Yr)	0.9
CMP (INR)	214

Valuation Data	
Total Debt (long term borrowings) (2024)	117
Cash & Cash Equivalents (2024)	1,379
Number of Diluted Shares (2024)	55
Tax Rate (2025)	7.76%
Interest Expense Rate (2025)	37.4%
MV of Equity	11,834
Total Debt	117
Total Capital	11,952

WACC	
We	99.0%
Wd	1.0%
Ke	12.6%
Kd	34.5%
WACC	12.82%

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period					Linear Decline Phase					Terminal Yr	
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	648	853	971	1,095	1,224	1,344	1,457	1,559	1,647	1,717	1,766	1,821
Dep	180	207	228	250	275	305	330	354	374	389	401	413
Purchase of Assets	240	300	330	363	399	442	479	513	541	564	581	599
Changes in Working Capital	(320)	(402)	(417)	(424)	(437)	(500)	(542)	(580)	(613)	(639)	(657)	(677)
FCFF	909	1,163	1,286	1,407	1,537	1,707	1,850	1,980	2,091	2,180	2,243	2,312
% Growth in Post Tax EBIT		31.6%	13.8%	12.8%	11.2%	9.8%	8.4%	7.0%	5.6%	4.3%	2.9%	3.1%
As % of Post Tax EBIT												
Dep	27.8%	24.3%	23.4%	22.9%	22.5%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%
Purchase of Assets	37.0%	35.2%	34.0%	33.1%	32.6%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%	32.9%
Changes in Working Capital	-49.4%	-47.1%	-42.9%	-38.7%	-35.7%	-37.2%	-37.2%	-37.2%	-37.2%	-37.2%	-37.2%	-37.2%
FCFF	909	1,163	1,286	1,407	1,537	1,707	1,850	1,980	2,091	2,180	2,243	2,312
Terminal Value												23,785
Total Cash Flow	909	1,163	1,286	1,407	1,537	1,707	1,850	1,980	2,091	2,180	2,243	26,097

Enterprise Value (EV)	14,789
Less: Debt	117
Add: Cash	1,379
Equity Value	16,051

Equity Value per share (INR) 290

% Returns 35.63%

Rating BUY

WACC (%)	g(%)									
	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	
290										
11.78%	303	308	313	318	323	329	335	341	348	
12.03%	296	300	304	309	314	319	325	331	337	
12.28%	288	292	296	301	306	311	316	321	327	
12.53%	281	285	289	293	298	302	307	312	318	
12.78%	274	278	282	286	290	294	299	303	309	
13.03%	268	271	275	279	283	287	291	295	300	
13.28%	262	265	269	272	276	279	283	288	292	
13.53%	256	259	262	266	269	273	276	280	284	
13.78%	251	254	256	260	263	266	270	273	277	

Source: Company reports, Arianth Capital Research, Figures are in INR Mn. except share price and percentage data

Key Financials

Income Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenues	6,871	8,000	10,000	11,000
Change (%)	4.1%	16.4%	25.0%	10.0%
Cost of Goods Sold (COGS)	4,074	4,704	5,840	6,380
Gross Profit	2,797	3,296	4,160	4,620
Employee costs	1,381	1,600	2,000	2,200
Other expenses	582	640	800	880
Total Expenses	6,037	6,944	8,640	9,460
EBITDA	834	1,056	1,360	1,540
EBITDA Margin	12.13%	13.20%	13.60%	14.00%
Depreciation	164	180	207	228
EBIT	670	876	1,153	1,312
Interest	52	72	72	72
Other Income	12	35	52	63
PBT	630	839	1,134	1,303
Exceptional Items	0	0	0	0
PBT after exceptional Items	630	839	1,134	1,303
Tax	171	218	295	339
Rate (%)	6.7%	7.8%	8.4%	8.8%
PAT	458.40	621.08	838.96	964.57
PAT Margin (%)	6.7%	7.8%	8.4%	8.8%

Cash Flow Statement (INR Mn)				
Year End-March	Fy24	FY25E	FY26E	FY27E
PBT	630	839	1,134	1,303
Adjustments: Add	865	738	958	1,123
Change in assets & Liabilities	-37	-318	-402	-417
Net Cash From Operations	865	738	958	1,123
Capex	-178	-210	-333	-265
Cash From Investing	-321	-341	-618	-419
Other financing activities	296	17	17	18
Finance cost paid	(52.10)	(71.57)	(71.57)	(71.57)
Cash From Financing	1	-149	-350	-392
Net Increase/ Decrease in Cash	545	247	-10	312
Cash at the beginning of the year	835	1,379	1,626	1,615
Cash at the end of the year	1,379	1,626	1,616	1,927

Balance Sheet (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	276.5	274.2	274.2	274.2
Reserves & Surplus	5,510	6,660	7,499	8,464
Net Worth	5,786	6,934	7,773	8,738
Loan Funds				
MI, Deferred Tax & other	79	81	81	81
Liabilities				
Capital Employed	7,781	8,748	9,689	10,688
Application of Funds				
Gross Block	8,473	9,373	10,273	11,173
Less: Depreciation	7,401	8,057	8,776	9,558
Net Block	1,071	1,315	1,496	1,614
CWIP	-	-	-	-
Other Non-current Assets	395	434	478	525
Other Current Assets	319.4	351.3	386.5	425.1
Net Fixed Assets	1,785	2,101	2,360	2,565
Investments				
Debtors	1,499	1,778	2,000	2,200
Inventories	481	579	674	714
Cash & Bank Balance	1,267	1,494	1,484	1,771
Loans & Advances & other CA	827	944	1,079	1,234
Total Current Assets	4,479	5,249	5,726	6,472
Current Liabilities	1,243	1,448	1,533	1,550
Provisions	225	225	225	225
Net Current Assets	3,236	3,801	4,193	4,922
Total Assets	7,780	8,747	9,688	10,687

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	8.3	11.3	15.3	17.6
BVPS	112	126	142	159
Valuation (x)				
P/E	25.8	18.9	14.0	12.2
P/BV	1.9	1.7	1.5	1.3
EV/EBITDA	11.4	8.9	7.5	6.5
Return ratio (%)				
EBITDA Margin	12.1%	13.2%	13.6%	14.0%
PAT Margin	6.7%	7.8%	8.4%	8.8%
ROE	7.4%	9.0%	10.8%	11.0%
ROCE	8.6%	10.0%	11.9%	12.3%
Leverage Ratio (%)				
Total D/E	0.0	0.0	0.0	0.0
Turnover Ratios				
Asset Turnover (x)	1.5	1.5	1.7	1.7
Inventory Days	481	579	674	714
Receivable Days	116	116	116	116
Payable days	73	73	73	73

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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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