

**CMP: INR 155**

**Rating: Buy**

**Target Price: 229**

**Stock Info**

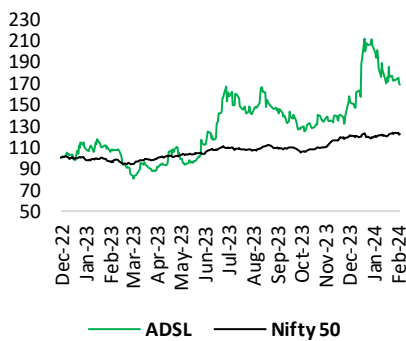
BSE	532875
NSE	ADSL
Bloomberg	ALDS IN
Reuters	ADIS.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR Mn)	274
Mkt Cap (INR Mn)	8,529
52w H/L (INR)	201.4 / 71.5
Avg Yearly Vol (in 000')	667

**Shareholding Pattern %**

(As on Dec, 2023)

Promoters	52.26
Public & Others	47.76

**ADSL Vs Nifty**



Source: Arihant Research

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*Revenue increased to INR 1,711 Mn, up by 0.5% QoQ and down by 1.8% YoY. EBITDA stood at INR 207 Mn, up from INR 200 Mn and INR 302 Mn in Q2FY24 and in Q3FY23 respectively. EBITDA margin stood at 12%, as against 17% in Q3FY23 and flat on QoQ basis. PAT for the quarter was INR 117 Mn, compared to INR 115 Mn and INR 193 Mn in Q2FY24 and Q3FY23 respectively. Revenue from global customers is 68% and 32% from domestic.*

**Investment Rationale**

**Strengthening partnerships:** The company has been enhancing its partnerships with large IT service firms and global consulting firms to serve customers jointly, leading to a significant inflow of new customers, including several marquee global names. With a richer client mix and a more elaborate track record built over the last two to three years, the company is reemphasizing its direct channels for sales and marketing to comprehensively add new businesses in the current year.

**Strong renewal record with major clients:** The company successfully renewed contracts with key clients, including a major global FMCG company since 2018, adding \$1 Mn in revenue by expanding to additional U.S. manufacturing sites, reaching a total of \$3 Mn annually. Additionally, a \$2.7 Mn renewal with a leading American home appliance brand for 2024 and a \$1.8 Mn continuation of a ten-year relationship with a fast-food chain, providing IT support to 4,700 outlets across 48 states, were secured. In addition to renewals, the company secured a \$2 million increase in net new business from existing clients.

**New business and order wins:** The company was chosen as the Master System Integrator for the Ayodhya Smart City project, tasked with integrating CCTV Surveillance cameras, marking a significant achievement. Furthermore, they acquired a new banking client on the East Coast of the U.S., securing a three-year contract to provide end-user transformation services. In addition, they experienced expansion in the cybersecurity sector, gaining new clients in Q3. Their expertise was further recognized by being selected by the city of Normal in Illinois as a partner master system integrator for multiple projects, demonstrating proficiency across various domains.

**Progress in Smart City projects:** Significant advancements have been made in various smart city projects, including Lucknow, Solapur, Amritsar, Jalandhar, Sultanpur, and Ayodhya. The Lucknow project is nearing completion and expected to launch in Q4, while Solapur is at 95% completion, foreseeing revenue generation. Additionally, Amritsar's launch is planned for Q4, with Jalandhar potentially extending to Q1FY25. Further, anticipated closures of new projects initiated in the past year indicate positive momentum in project execution and revenue generation.

**Outlook and Valuation:** The company is anticipating a short-term margin improvement of 100-150 bps from Q4, the company reiterates its goal to achieve INR 10 Bn in revenue within the next 2 to 3 years. The strategic focus remains on expanding partnerships and engaging in Smart City Projects. **At the CMP of INR 155, ADSL is trading at an EPS of 17.6 for FY26E, with a PE of 13.0x for FY26E . We arrive at target price of INR 229 with a Buy rating on the stock.**

**Exhibit 1: Financial estimates**

Y/e 31 Mar (INR Mn)	Q3FY24	Q3FY23	YoY (%)	H1 FY24	H1 FY23	YoY (%)
Revenue	1,711	1,742	-1.8%	5,103	4,938	3.3%
EBITDA	207	302	-31.4%	590	696	-15.2%
EBITDA Margin %	12.1	17.3	-523 bps	11.6	14.1	-253 bps
PAT	117	193	-39.3%	317	442	-28.3%
PAT Margin %	6.8	11.1	-422 bps	6.2	9.0	-274 bps
EPS- Continuing operations	2.1	3.5	-41.8%	5.8	8.1	-29.2%

Source: Arian Research

**Q3FY24 Concall highlights**

**Deals:** Secured \$2.7M contract with an American home appliance brand, renewed a decade-long partnership with a restaurant chain (\$1.8M contract), and achieved a \$2M increase in net new business from existing clients. Added East Coast Bank as a customer for 3-year end-user transformation services. Focused on strengthening partnerships with major IT service firms and global consulting companies for customer acquisition.

**Smart City:** They won a prestigious award for the IOTA Smart City project. The company is placing strong emphasis on smart city projects, with unique elements contributing to future growth. Ongoing Projects in Lucknow, Solapur, Amritsar, Jalandhar, and Sultanpur; Focus on SAS Platform for Mid-sized Banks and BFSI Segment Solutions.

**Geography:** Positive outlook for IT business traction in the US, growing interest in Europe and APAC; strong cash flow from successful government projects in India; focus on sales and marketing to tap into new business opportunities in the upcoming year.

**Gen AI:** Focused on changing the growth trajectory by targeting new client opportunities; significant investments in updating company and employee skillsets, incorporating AI and generative AI.

**Deal closure delays:** Market environment and decision-making sluggishness impacted sales.

**Customer Focus:** IT and consulting firms, corporate sector; pipeline delays with verbal confirmations awaiting formal contracts.

**Data centres strategy:** The Company's strategy is not to build its own data centre but to leverage existing ones through Opex-intensive models.

## Key Financials

Income statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	4,847	6,601	7,259	9,366	11,017
Change (%)	35.4%	36.2%	10.0%	29.0%	17.6%
Cost of Goods Sold (COGS)	2,763	4,027	3,267	4,196	4,936
<b>Gross Profit</b>	<b>2,084</b>	<b>2,574</b>	<b>3,993</b>	<b>5,170</b>	<b>6,082</b>
Employee costs	839	1,086	871	1,171	1,377
Other expenses	544	605	2,250	2,782	3,217
<b>Total Expenses</b>	<b>4,146</b>	<b>5,718</b>	<b>6,388</b>	<b>8,148</b>	<b>9,530</b>
<b>EBITDA</b>	<b>700</b>	<b>883</b>	<b>871</b>	<b>1,218</b>	<b>1,487</b>
<b>EBITDA Margin</b>	<b>14.4%</b>	<b>13.3%</b>	<b>12.0%</b>	<b>13.0%</b>	<b>13.5%</b>
Depreciation	203	170	204	224	258
<b>EBIT</b>	<b>498</b>	<b>713</b>	<b>667</b>	<b>993</b>	<b>1230</b>
Interest	26	40	50	50	50
Other Income	26	57	58	87	131
<b>PBT</b>	<b>735</b>	<b>730</b>	<b>676</b>	<b>1,031</b>	<b>1,311</b>
<b>PBT after exceptional Items</b>	<b>735</b>	<b>730</b>	<b>676</b>	<b>1,031</b>	<b>1,311</b>
Tax	125	192	176	268	341
Rate (%)	12.6%	8.1%	6.9%	8.1%	8.8%
<b>PAT</b>	<b>610</b>	<b>537</b>	<b>500</b>	<b>763</b>	<b>970</b>
<b>PAT Margin (%)</b>	<b>12.6%</b>	<b>8.1%</b>	<b>6.9%</b>	<b>8.1%</b>	<b>8.8%</b>

Balance sheet (INR Mn)					
Year-end March	FY22	FY23	FY24E	FY25E	FY26E
<b>Sources of Funds</b>					
Share Capital	271	274	274	274	274
Reserves & Surplus	5,043	5,085	6,081	6,844	7,814
<b>Net Worth</b>	<b>5,314</b>	<b>5,360</b>	<b>6,355</b>	<b>7,118</b>	<b>8,088</b>
Loan Funds	426	352	452	452	452
MI, Deferred Tax & other Liabilities	235	81	81	81	81
<b>Capital Employed</b>	<b>6,933</b>	<b>6,949</b>	<b>8,118</b>	<b>8,871</b>	<b>9,912</b>
<b>Application of Funds</b>					
Gross Block	7,652	7,573	8,473	9,373	10,273
Less: Depreciation	6,984	6,808	7,401	8,057	8,776
<b>Net Block</b>	<b>668</b>	<b>764</b>	<b>1,071</b>	<b>1,315</b>	<b>1,496</b>
Other Non-current Assets	344	371	371	371	371
Other Current Assets	377.4	449.6	458.6	467.8	477.1
<b>Net Fixed Assets</b>	<b>1,388</b>	<b>1,585</b>	<b>1,901</b>	<b>2,154</b>	<b>2,344</b>
Investments	94.90	62.20	65.31	68.58	72.00
Debtors	1,987	1,595	1,815	2,081	2,203
Inventories	380	428	449	545	607
Cash & Bank Balance	497	773	1,559	1,740	2,038
Loans & Advances & other CA	604	537	588	644	768
<b>Total Current Assets</b>	<b>3,934</b>	<b>3,837</b>	<b>4,906</b>	<b>5,515</b>	<b>6,130</b>
Current Liabilities	1,051	1,087	1,515	1,505	1,575
Provisions	81	129	129	129	129
<b>Net Current Assets</b>	<b>2,883</b>	<b>2,750</b>	<b>3,391</b>	<b>4,009</b>	<b>4,555</b>
<b>Total Assets</b>	<b>6,933</b>	<b>6,949</b>	<b>8,115</b>	<b>8,871</b>	<b>9,909</b>

Cash Flow Statement (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>PBT</b>	<b>610</b>	<b>538</b>	<b>500</b>	<b>763</b>	<b>970</b>
Cash From Operating Activities	163	1,119	920	865	1,161
Tax	125	192	176	268	341
<b>Net Cash From Operations</b>	<b>38</b>	<b>927</b>	<b>745</b>	<b>597</b>	<b>820</b>
<b>Capex</b>	<b>(34)</b>	<b>(126)</b>	<b>(126)</b>	<b>(139)</b>	<b>(179)</b>
Cash From Investing	(60)	(117)	(333)	(367)	(473)
Borrowings	426	352	452	452	452
Cash From Financing	(77)	(111)	(50)	(50)	(50)
<b>Net Increase/ Decrease in Cash</b>	<b>-98</b>	<b>700</b>	<b>362</b>	<b>181</b>	<b>298</b>
<b>Cash at the beginning of the year</b>	<b>466</b>	<b>497</b>	<b>1,197</b>	<b>1,559</b>	<b>1,740</b>
Cash at the end of the year	497	1,197	1,559	1,740	2,038

Key Ratios					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
<b>Per share (INR)</b>					
EPS	11.7	9.9	9.1	13.9	17.6
BVPS	103	104	116	130	147
<b>Valuation (x)</b>					
P/BV	1.5	1.5	1.3	1.2	1.1
EV/EBITDA	10.4	8.0	7.3	5.2	4.4
<b>Return ratios (%)</b>					
EBITDA Margin	14.5%	13.4%	12.0%	13.0%	13.5%
PAT Margin	12.6%	8.2%	6.8%	8.1%	8.8%
ROE	10.9%	9.4%	7.8%	10.7%	12.0%
ROCE	7.2%	10.3%	8.2%	11.2%	12.4%
<b>Turnover Ratios</b>					
Asset Turnover	1.2	1.7	1.5	1.7	1.8
Inventory Days	380	428	449	545	607
Receivable Days	150	115	115	115	115
Payable days	43	72	72	72	72

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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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