

CMP: INR 147

Rating: Buy

Target Price: 229

Stock Info

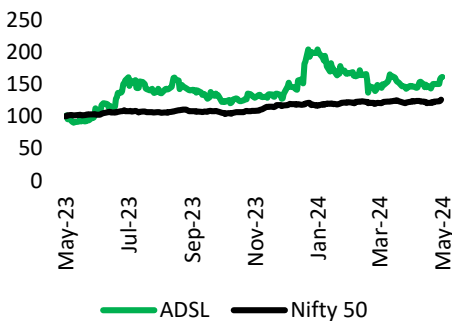
BSE	532875
NSE	ADSL
Bloomberg	ALDS IN
Reuters	ADIS.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR Mn)	276.5
Mkt Cap (INR Mn)	8,129
52w H/L (INR)	201.4 / 83.5
Avg Yearly Vol (in 000')	760

Shareholding Pattern %

(As on Mar, 2024)

Promoters	52.19
Public & Others	47.81

ADSL Vs Nifty



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Consolidated revenue stood at INR 1,768 Mn, against Q3FY24 of INR 1,711 Mn registering a growth 6.3% YoY/3.3% QoQ. EBITDA stood at INR 243 Mn, against Q3FY24 of INR 207 Mn, Registering a growth of 30.3%YoY/ 17.7%QoQ). On the margins front, EBITDA margin expansion by 253bps YoY/168 bps QoQ to 13.8% against 12.1% in Q3FY24. Consolidated PAT saw a growth of +48.4%YoY/ 20.7%QoQ to INR 141 Mn against Q3FY24 of INR 117 Mn.

Investment Rationale

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 company consistently delivers high uptime (98-99%) and achieves gross margins of 25% to 35%. 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.

Innovative Product Offerings and Rebranding

The rebranding of Adidas to Digital Desk signifies Allied Digital's commitment to innovation and market responsiveness. Digital Desk, which integrates advanced AI capabilities, has seen substantial traction with over 100 customers globally. This product not only diversifies the company's revenue streams but also positions it as a leader in digital transformation solutions, potentially leading to higher margins and market share.

Expanding Market Opportunities

The management's insight into future market opportunities, such as the potential development of 1,000 additional small smart cities in India, highlights significant growth prospects. The estimated market size of INR 5,00,000 Mn over the next five years presents a substantial opportunity for Allied Digital. The company's established track record in smart city projects positions it favourably to capture a significant share of this market.

Revenue Growth and Deal Pipeline

The company targets reaching INR 10,000 Mn in revenue by FY25 or FY26, demonstrating its growth aspirations. Despite some delays in deal closures due to external economic factors, the management remains optimistic about achieving this target. The pipeline includes significant deals in advanced negotiation stages, particularly in the Middle East and with large banks, suggesting strong future revenue inflows. The company maintains a strong order book, with INR 14,000 Mn to be executed over the next 3-4 years, providing visibility and stability in future earnings.

Outlook and Valuation: 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 12.80%, 17.18%, and 20.33%, respectively, over FY25-FY27E. We used DCF model to arrive at a target price of INR 229 per share (Earlier target price of INR per share 229). Accordingly, we maintain our "BUY" rating on the stock**

Exhibit 1: Financial estimates

Y/e 31 Mar (INR Mn)	Q4FY24	Q4FY23	YoY(%)	FY24	FY23	YoY(%)
Revenue	1,768	1,662	6.33%	6,871	6,601	4.09%
EBITDA	243	187	30.37%	834	883	-5.59%
EBITDA Margin%	13.77%	11.23%	253.87 bps	12.13%	13.38%	-124.46 bps
PAT	141	95	48.53%	458	538	-14.75%
PAT Margin%	7.98%	5.71%	226.76 bps	6.67%	8.15%	-147.42 bps
EPS-Continuing operation	2.53	1.73	46.24%	8.39	9.87	-14.99%

Source: Arian Research

Q4FY24 Concall highlights**Debt and Order Book**

- The company has taken on short-term debt (~ INR 600 Mn) primarily for working capital requirements and project-based funding needs. However, it remains debt-free on a net basis.
- The management highlighted the challenges in providing a concrete order book figure due to the nature of their business, which involves continuous farming i.e. securing additional business from existing customers and short-term projects.
- While the company did not disclose a specific order book value, the management mentioned a healthy pipeline of deals totaling approximately \$26 million in TCV (Total Contract Value) with projected closure in the next 3 to 6 months.

Rebranding of AdiTaaS (now Digital Desk)

- The company has rebranded its SaaS platform, AdiTaaS, to Digital Desk, with the aim of enhancing brand recognition and customer adoption.
- Digital Desk has been upgraded with features related to artificial intelligence (AI) and automation, including conversational AI and generative AI capabilities, to improve end-user productivity and automate workflows and processes.
- The rebranding exercise was driven by the need for a more focused brand identity and better recall among customers, as the previous name (AdiTaaS) was often confused with Adidas.
- The company currently has over 100 customers, both direct and indirect, using the Digital Desk platform globally.

Smart City Projects

- Allied Digital Services Limited has a strong presence in the smart city domain and has reported significant traction in this segment. During the quarter, the company secured notable smart city orders, including the Ayodhya Smart City project for integrating CCTV surveillance systems and the Taloja Smart Industrial City contract in Navi Mumbai.
- The management highlighted the growing opportunities in the smart city space, with the Indian government's focus on developing 1,000 more smart cities in the future, potentially representing a market opportunity of around INR 5,00,000 Mn over the next 5 years.
- The company has completed 12 smart city projects so far and received two new projects during the reported quarter.
- The competitive landscape for smart city projects typically involves around five to six major players, including companies like L&T, KEC and, NEC with whom Allied Digital Services Limited competes or collaborates.

Geographic Expansion

- The company recently incorporated a subsidiary called Allied Smart IT Infrastructure Services LLC and set up a sales office in Dubai, indicating its plans to expand its footprint in the Middle East market.
- The management mentioned being in advanced negotiations with a large bank in the Middle East region, suggesting potential opportunities in that market.

Cybersecurity Offerings

- The company witnessed significant traction in its cybersecurity offerings in Q4FY24, adding new customers, including several global names.
- It has been strengthening partnerships with large IT service firms and global consulting firms to jointly serve customers in the cybersecurity domain.

Customer Wins and Renewals

- The company secured a contract with a Spanish bank's subsidiary in Boston to provide managed services and support.
- They won a contract with a BP Americas subsidiary for technology support and refresh project.
- The company partnered with a global infrastructure firm for managed services for 20,000 end-users across 17 countries in Asia-Pacific.
- They also signed with Enercon, a German wind turbine manufacturer, to streamline IT operations at their production facilities.

Other Highlights

- The company aims to increase its EBITDA margin in the India business to 20%.
- Increase in debt is primarily due to the company taking project loans to execute its smart city projects and fund working capital requirements.
- Cash balance has increased, with some cash lying in the US subsidiary as well. The healthy cash balance of around INR 1,300 Mn is being maintained to fund any large contract wins or opportunities that may arise, without having to raise capital externally.
- There is a continued endeavor to further improve the DSOs.
- The company has made about 8-10% of the billing for the Taloja and Ayodhya smart city projects in Q4FY24.

Allied Digital Services Ltd. Q4FY24 Result Update

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta (2 Yr)	0.8
CMP (INR)	147

WACC

We	98.6%
Wd	1.4%
Ke	11.9%
Kd	24.0%
WACC	12.0519%

Valuation Data

Total Debt (long term borrowings) (2024)	117
Cash & Cash Equivalents (2024)	1,379
Number of Diluted Shares (2024)	55
Tax Rate (2025)	7.57%
Interest Expense Rate (2025)	25.9%

MV of Equity	8,129
Total Debt	117
Total Capital	8,246

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)	618	711	824	967	1,111	788	869	937	989	1,019	1,027	1,058
Dep	180	207	228	250	275	275	220	237	251	258	260	268
Purchase of Assets	231	261	296	334	375	375	297	320	338	348	351	361
Changes in Working Capital	(257)	(226)	(443)	(455)	(473)	(473)	(390)	(420)	(443)	(457)	(460)	(474)
FCFF	824	883	1,199	1,339	1,484	1,162	1,182	1,275	1,345	1,386	1,396	1,440
% Growth in Post Tax EBIT		15.0%	15.9%	17.4%	15.0%	12.6%	10.2%	7.9%	5.5%	3.1%	0.7%	3.1%
As % of Post Tax EBIT												
Dep	29.1%	29.1%	27.6%	25.9%	24.8%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%	25.3%
Purchase of Assets	37.3%	36.8%	35.9%	34.5%	33.8%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%	34.1%
Changes in Working Capital	-41.5%	-31.8%	-53.8%	-47.0%	-42.6%	-44.8%	-44.8%	-44.8%	-44.8%	-44.8%	-44.8%	-44.8%
FCFF	824	883	1,199	1,339	1,484	1,162	1,182	1,275	1,345	1,386	1,396	1,440
Terminal Value												16,084
Total Cash Flow	824	883	1,199	1,339	1,484	1,162	1,182	1,275	1,345	1,386	1,396	17,523

Enterprise Value (EV)	11,413
Less: Debt	117
Add: Cash	1,379
Equity Value	12,674
Equity Value per share (INR)	229
% Returns	55.91%
Rating	BUY

WACC (%)

	Terminal Growth(%)									
229	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	
10.98%	240	243	247	251	255	260	265	270	275	
11.23%	234	237	241	244	248	252	257	262	267	
11.48%	228	231	234	238	242	246	250	254	259	
11.73%	223	226	229	232	235	239	243	247	251	
11.98%	218	220	223	226	230	233	236	240	244	
12.23%	213	215	218	221	224	227	230	234	238	
12.48%	208	211	213	216	219	222	225	228	231	
12.73%	204	206	209	211	214	216	219	222	226	
12.98%	200	202	204	206	209	211	214	217	220	

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	FY23	FY24	FY25E	FY26E	FY27E
Revenues	6,601	6,871	7,690	8,714	9,862
<i>Change (%)</i>	36.19%	4.09%	11.93%	13.31%	13.18%
Cost of Goods Sold (COGS)	4,027	4,074	4,522	5,106	5,760
Gross Profit	2,574	2,797	3,168	3,608	4,103
Employee costs	1,086	1,381	1,538	1,743	1,972
Other expenses	605	582	615	697	789
Total Expenses	5,718	6,037	6,675	7,546	8,521
EBITDA	883	834	1,015	1,168	1,341
EBITDA Margin	13.38%	12.13%	13.20%	13.40%	13.60%
Depreciation	170	164	180	207	228
EBIT	713	670	835	961	1,114
Interest	40	52	66	66	66
Other Income	57	12	17	26	31
PBT	730	630	787	921	1,079
Exceptional Items	0	0	0	0	0
PBT after exceptional Items	730	630	787	921	1,079
Tax	192	171	205	240	281
<i>Rate (%)</i>	8.15%	6.67%	7.57%	7.82%	8.10%
PAT	537.70	458.40	582.35	681.68	798.71
PAT Margin (%)	8.15%	6.67%	7.57%	7.82%	8.10%

Cash Flow Statement (INR Mn)					
Year End-March	FY23	Fy24	FY25E	FY26E	FY27E
PBT	730	630	787	921	1,079
Adjustments: Add	153	865	760	941	898
Change in assets & Liabilities	172	(37)	(255)	(226)	(443)
Net Cash From Operations	1,109	865	760	941	898
Capex	(289)	(178)	(210)	(333)	(265)
Cash From Investing	(226)	(321)	(359)	(644)	(450)
Other financing activities	35	296	17	17	18
Finance cost paid	(40.20)	(52.10)	(65.60)	(65.60)	(65.60)
Cash From Financing	(640)	1	(130)	(288)	(328)
Net Increase/ Decrease in Cash	243	545	272	9	120
Cash at the beginning of the year	591	835	1,379	1,651	1,659
Cash at the end of the year	834	1,379	1,651	1,659	1,779

Balance Sheet (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Share Capital	274	277	274	274	274
Reserves & Surplus	5,085	5,510	6,621	7,303	8,102
Net Worth	5,360	5,786	6,895	7,577	8,376
Loan Funds	352	596	596	596	596
MI, Deferred Tax & other Liabilities	81	79	81	81	81
Capital Employed	6,949	7,781	8,681	9,390	10,243
Application of Funds					
Gross Block	7,573	8,473	9,373	10,273	11,173
Less: Depreciation	6,808	7,401	8,057	8,776	9,558
Net Block	764	1,071	1,315	1,496	1,614
CWIP	0	0	0	0	0
Other Non-current Assets	371	395	434	478	525
Other Current Assets	449.6	319.4	351.3	386.5	425.1
Net Fixed Assets	1,585	1,785	2,101	2,360	2,565
Investments	62.20	62.20	65.31	68.58	72.00
Debtors	1,595	1,499	1,709	1,743	1,972
Inventories	428	481	556	589	645
Cash & Bank Balance	773	1,267	1,517	1,525	1,634
Loans & Advances & other CA	537	827	944	1,079	1,234
Total Current Assets	3,837	4,479	5,183	5,428	6,026
Current Liabilities	1,087	1,243	1,421	1,431	1,467
Provisions	129	225	225	225	225
Net Current Assets	2,750	3,236	3,762	3,997	4,560
Total Assets	6,949	7,780	8,681	9,390	10,242

Key Ratios					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Per share (INR)					
EPS	9.87	8.29	10.62	12.43	0.00
BVPS	104.18	111.92	125.74	138.17	0.00
Valuation (x)					
P/E	14.89	17.73	13.84	11.83	0.00
P/BV	1.41	1.31	1.17	1.06	0.00
EV/EBITDA	7.47	7.39	5.88	5.54	0.00
Return ratio (%)					
EBITDA Margin	0.13	0.12	0.13	0.13	0.00
PAT Margin	0.08	0.07	0.08	0.08	0.00
ROE	0.09	0.07	0.08	0.09	0.00
ROCE	0.10	0.09	0.10	0.10	0.00
Leverage Ratio (%)					
Total D/E	0.01	0.03	0.02	0.02	0.00
Turnover Ratios					
Asset Turnover (x)	1.72	1.53	1.48	1.61	1.64
Inventory Days	427.70	480.90	556.31	589.36	644.76
Receivable Days	115.00	116.00	116.00	116.00	116.00
Payable days	72.00	73.00	73.00	73.00	73.00

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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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