

CMP: INR 73

Outlook: Positive

Rating: Not Rated

Stock Info

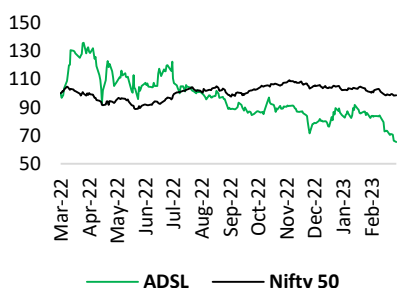
BSE	532875
NSE	ADSL
Bloomberg	ALDS IN
Reuters	ADIS.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR Mn)	271
Mkt Cap (INR Mn)	4,079
52w H/L (INR)	165 / 73
Avg Yearly Vol (in 000')	51

Shareholding Pattern %

(As on March, 2022)

Promoters	52.82
FII	0.60
DII	0.0
Public & Others	46.58

ADSL Vs Nifty



Source: Arihant Research

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

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, the USA, UK, Singapore, Australia, and Finland. Revenue from global customers is ~65% and 35% 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 and suppliers thanks to the management's significant experience. With an established track record and knowledgeable management ADSL, which was founded in 1984, has a well-established track record of operation spanning more than three decades in the IT services sector.
- **Pioneer in offering smart city solutions:** The company is a pioneer in offering Smart City Solutions to Indian State Governments. As a systems integrator, the business has completed numerous Smart City projects in the past in cities such as Pune, Aurangabad, Rajkot, and Kalyan-Dombivli. We think that over the medium term, the organization will be helped by the management's expertise and reputable clients in lowering its business risk profile. In the current year, the company has bagged 5 new Smart City projects in Solapur, Lucknow, Amritsar, Sultanpur and Jalandar.
- **Strong operating performance:** Cloud services, cybersecurity, smart city solutions, infrastructure management services, software solutions, and workplace management services are the current six main revenue streams for ADSL. The group's operating performance has increased steadily, with sales increasing by 35% year over year. In comparison to FY2021, the group's revenue increased to INR 4840 Mn from INR 3580 Mn. The increase in revenue is the result of a greater demand for IT services and solutions on a global scale as a result of businesses reopening. ADSL's operating margin increased from 12.6% in FY2021, to 14.5% in FY2022. Increased operational scale and careful cost optimization by the business are key drivers for the improvement in operating profits.
- **Strong order book:** The company has INR 20 Bn order book on a consolidated basis. The company has unexecuted order book about 16 bn, which gives strong revenue visibility for the near to medium term.
- **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 31%/ 23% CAGR growth for revenue/ PAT for the next three years. **At a CMP of INR 73, ADSL is trading at a PE of 5.2x/4.5x to its FY24E/FY25E EPS of INR 14.1/16.3. We have a positive outlook on the stock.**

Exhibit 1: Management Expectations for FY23-25E

INR Mn (Consolidated)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenue	3580	4840	6,660	8580	11154
Growth (%)		35.2%	37.6%	28.8%	30.0%
EBITDA	450	700	1,028	1419	1902
Growth (%)		55.6%	46.9%	38.0%	34.1%
EBITDAM %	12.6%	14.5%	15.4%	16.5%	17.1%
PAT	190	610	623	766	881
Growth (%)		221.1%	2.1%	23.0%	15.0%
PATM %	5.3%	12.6%	9.4%	8.9%	7.9%
EPS	38	11.26	11.5	14.1	16.3
PE	1.9	6.5	6.3	5.2	4.5

Exhibit 2: Q3FY23 – The company reported healthy financial

Y/e 31 Mar (INR Mn)	Q3FY23	Q2FY23	Q3FY22	YoY (%)	QoQ (%)
Revenue	1,742	1,670	1,170	48.9%	4.3%
EBITDA	302	260	134	125.6%	16.0%
EBITDA Margin %	17.32%	15.57%	11.43%	589bps	175bps
PAT	193	180	68	181.7%	7.1%
PAT Margin %	11.06%	10.78%	5.83%	523bps	28bps
EPS	2.3	3.27	1.3		

Exhibit 3: The company is seeing continue improvement on the top line led by strong order book

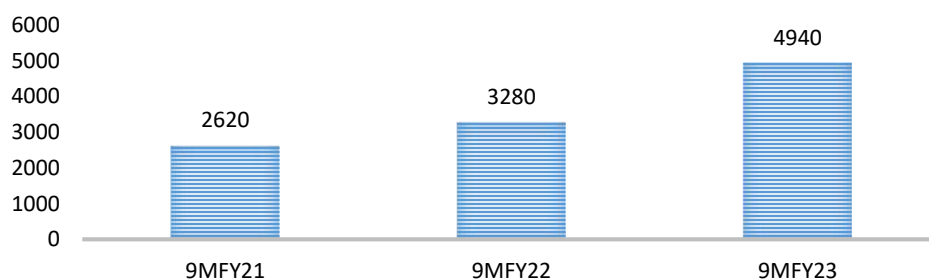
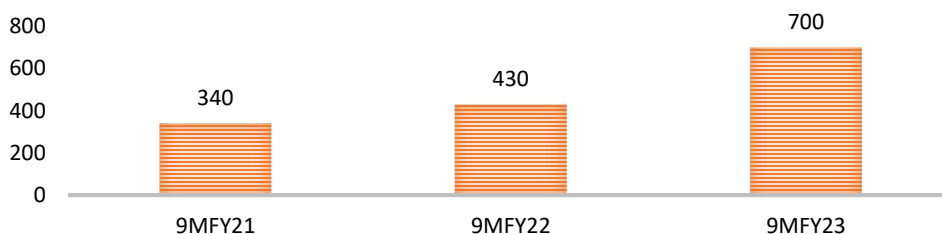
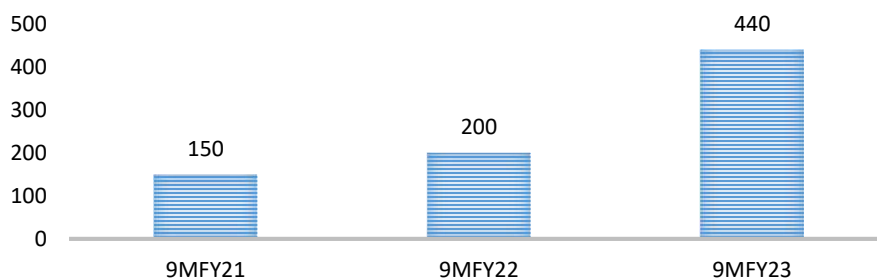


Exhibit 4: Growth in bottom line driven by increase in revenue



Source: Arihant Research

Exhibit 5: Better EBITDA led by cost optimization



Source: Arianth Research

Management Concall Key takeaways

The company has restructured the Line of Business into 6 towers. The company from 2020 onwards made a transformation as they realized that the industry is going to undergo a change to cloud.

- 1. Cloud Services:** There is a megatrend to move technology platform from on premises to cloud and from a CAPEX model to OPEX model, in this new trend one must pay on use basis which reduces CAPEX costs, Cloud technologies are very robust and mature now hence there is a mad rush to move most business to Cloud, Cloud technologies have also changed in an unprecedented way rapidly by creating Cloud-native platform. **Over the years, Allied Digital has gained tremendous expertise in public clouds such as AWS, Azure, and GCP to implement hybrid cloud models for enterprises.**
- 2. Cyber-security:** All are now vulnerable to cyber threats due to virtualization under Cloud and WFH. By developing the most recent and highly sophisticated assaults, like ransomware, threat actors are quickly expanding and stealing money and Large and MSME businesses are not exempt. This has opened up tremendous opportunity for IT organizations like ours to counteract these risks by using a variety of solutions, such as consultancy audits, cybersecurity implementation, and managed security services from Security Operations Centers (SOC). By anticipating this early on and developing SOC in 2007, your business has positioned itself effectively to outperform its rivals. Everyone will have a great chance, and non-discretionary spending will be necessary to prevent and stop cyberattacks. Due to its readiness, the company is positioned to experience tremendous development in this market.
- 3. Master System Integrator (Smart City):** Allied Digital is regarded as a Master Systems Integrator, a pioneer, and a market leader. Making the whole cities of Pune and PCMC digital in 2014–15 was the first step toward creating the first safe/smart city. The entire city is being watched over by a top-notch, cutting-edge command and control centre (CCC). Under the Central Government's plans to construct 100 Smart Cities, the company has developed the finest global practices and capacity to solve a variety of Smart City project opportunities. The company has already secured a number of Smart City projects and are poised for exponential expansion.
- 4. Infrastructure Management Services (Recurring Revenue):** Technology is at the core of Allied Digital, and the company offers IT services, a high-margin recurring revenue annuity business. For the upcoming five years, organization has already committed to a pure services revenue of more than INR 20,000 Mn worldwide.

To assist businesses, they developed a NOC/SOC and a global service delivery center in Mumbai. Since the beginning, this business has been a legacy. Many large businesses are currently combining their various service providers into a single service provider by novating all of their current contracts. In order to support one of the biggest auto manufacturers in the world by displacing hundreds of contractors, they have secured one extremely sizable contract in the USA. Similar to that, they also won a sizable multi-year deal with IMS of one of India's biggest companies.

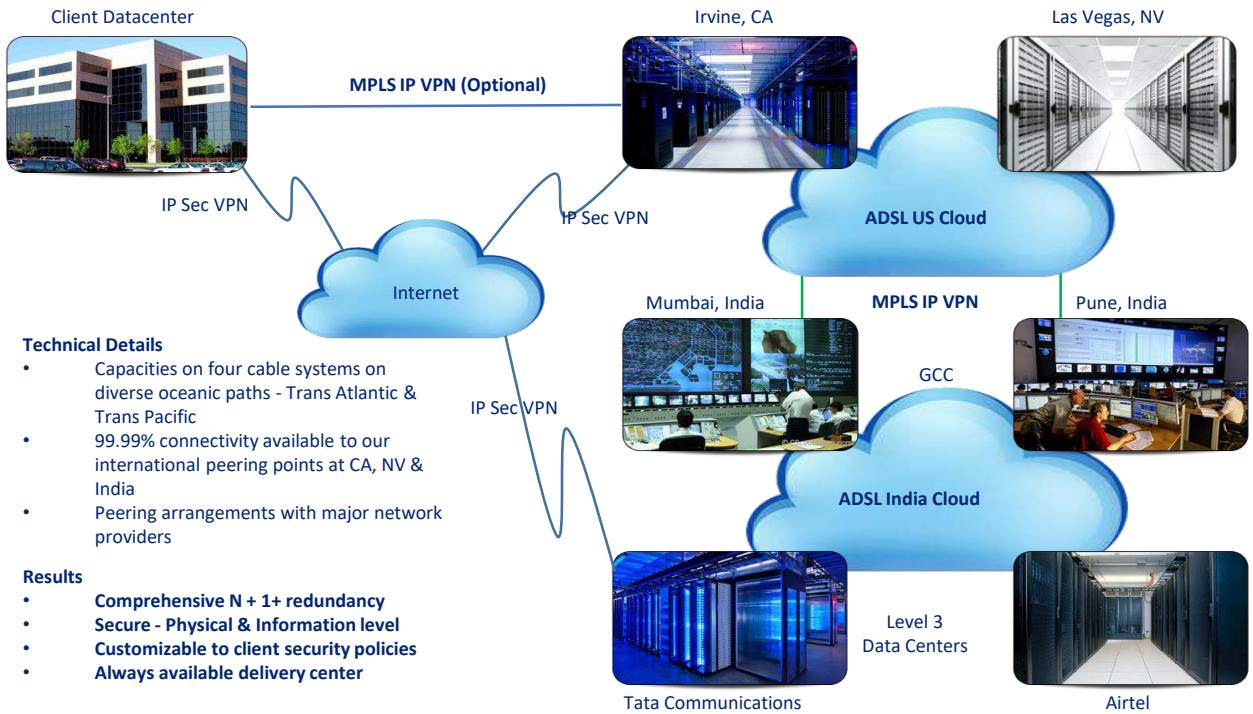
5. Software Services and AMR Workplace Management: By creating a cutting-edge Conversational Banking platform in the fintech sector, the company has established a ground-breaking FinoAllied platform. This platform can be expanded to include the insurance industry and other sectors where conversational bots can be used to conduct transactions. Emerging technologies including NLP, AI/ML, blockchain, data analytics, and data science are used by this platform. With its carefully trained and reskilled personnel, the organization is very eager to search out for chances leveraging these innovative technologies. They plan to participate in Industrial Revolution 4.0 to address challenging business issues. They have made significant investments in a talented staff, and are confident that using these innovative digital technologies it will pay off.

- **Attrition rate** stood at 9.5% in comparison to industry standard of 20%.
- **Rating:** Allied Digital Services has stated that Acuite Ratings & Research Limited ("Acuite Ratings") has assigned a long-term rating of '**ACUITE BBB**' (ACUITE triple B) and a short-term rating of '**ACUITE A3+**' (ACUITE A three plus) to its bank facilities.
- The company is almost debt free.
- In the hardware front good revenue from the bottom basis.
- Allied Digital won an order from a leading Print & Digital Media Publishing Company in US for the implementation End User Support. This includes 24/7 Service Desk coverage, efficient EUC device provisioning, Management, and Lifecycle services, as well as top-notch endpoint security management.

Segment view:

- **Strategies:** Establishing a Centre of excellence for service delivery would ensure: Customer visibility and transparency in the services supplied, establishing trust and enhancing customer satisfaction.
- Encouraging automation to reduce operational labour expenses on routine jobs (shift left initiative) and carry out analytics on operational customer data.
- Employee cross-functional and new technology training to ensure they are prepared for new service offerings leading to new customer acquisitions.
- Standardization of operational procedures and consistent evaluation of service quality in accordance with sector benchmarks, which maximizes worker productivity and reduces the effect of attrition.
- 2. Enhanced branding, new marketing initiatives, consumer communication through social media, and deeper relationship engagements are just a few of the initiatives the organization is launching.

Work from Anywhere: As work from home has now shifted to work from anywhere and ADSL was the first to execute this programme.



Technical Details

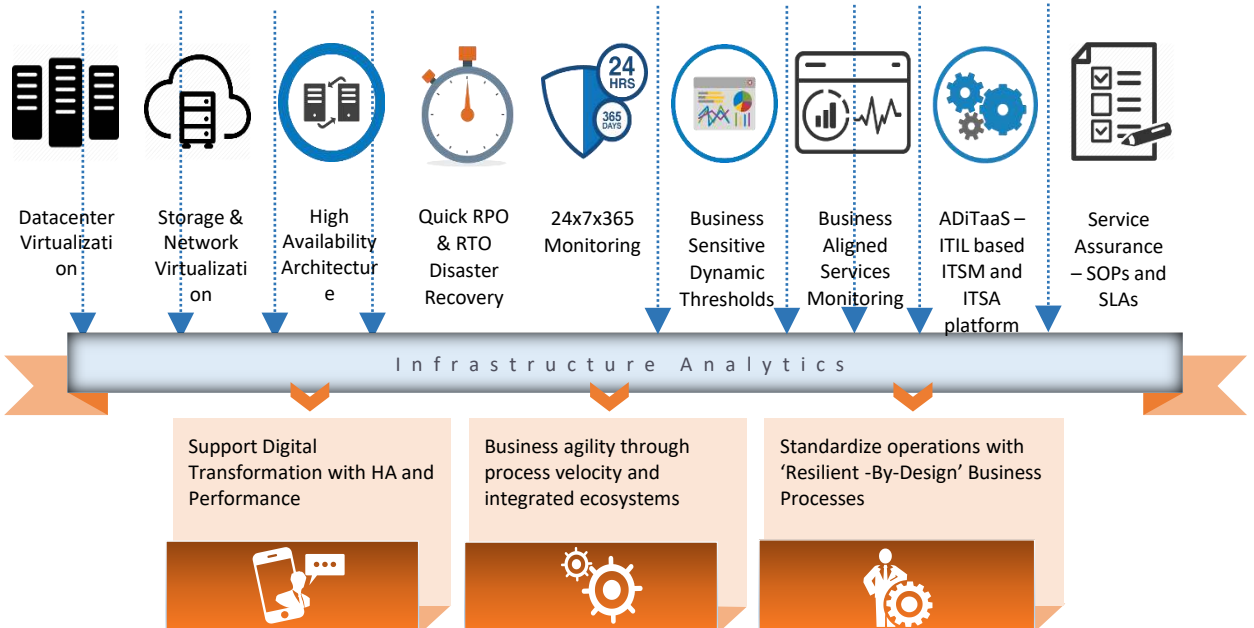
- Capacities on four cable systems on diverse oceanic paths - Trans Atlantic & Trans Pacific
- 99.99% connectivity available to our international peering points at CA, NV & India
- Peering arrangements with major network providers

Results

- **Comprehensive N + 1+ redundancy**
- **Secure - Physical & Information level**
- **Customizable to client security policies**
- **Always available delivery center**

Remote Enterprise Infrastructure Management

Enterprise IT Service Assurance



Source: Arianth Research Company

ADSL has unique technology as they did a project with the government for the recognized stolen vehicle number plate which is operated by police.

Cyber Security

ADSL will do investment in Cyber security as threats are coming in this. The company provides security to its clients and ADSL does B2B and start with a vulnerability test to check, if there is any area that the hacker can enter and penetration test - after identifying it the company recommends plans and solutions - data security.

ADSL provide wide range of technologies Supported to its customers

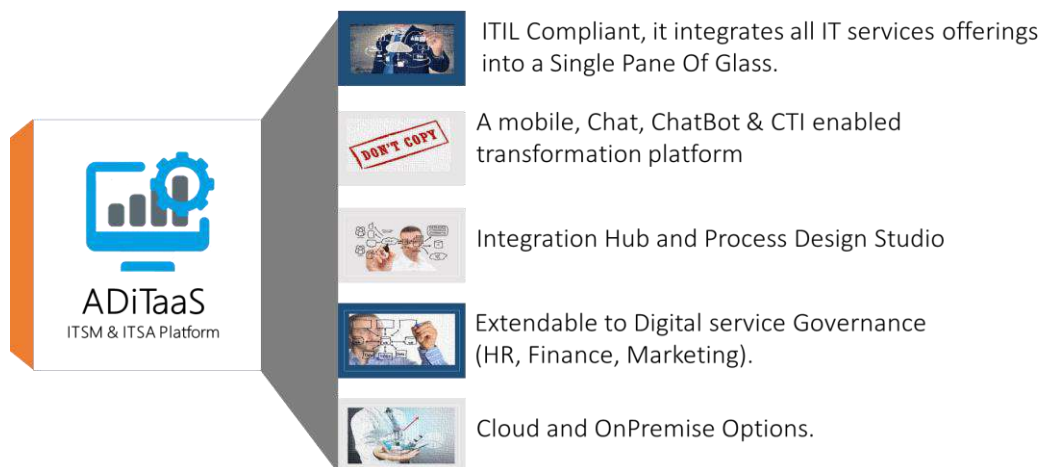
MICROSOFT WINDOWS Windows Server Active Directory Microsoft Terminal Services	DATACENTER CISCO UCS DELL EMC PowerEdge IBM Flex System VIRTX Hewlett Packard Enterprise Raritan	HYPER CONVERGED INFRA CISCO HYPERFLEX simplivity NUTANIX	AUTOMATION & DEVOPS Azure DevOps ANSIBLE DevOps aws PowerShell python Power BI UiPath PowerShell
LINUX / UNIX Red Hat CentOS SUSE solaris ubuntu debian hp UX	STORAGE data domain EMC VNX DELL EQUALLOGIC EXAGRID hp MSA nimblestorage 3PAR NetApp QNAP PURE STORAGE Synology NEW NAS Experience	VIRTUALIZATION System Center Virtual Machine Manager Microsoft Hyper-V vmware vmware aws vmware CITRIX XenServer NUTANIX ENTERPRISE VIRTUALIZATION	
RIMM BUSINESS TOOLS ADiTAAS PRTG NETWORK MONITOR servicenow ManageEngine OpManager KeyPass Password Safe Microsoft System Center Configuration Manager Microsoft System Center Operations Manager Nessus vulnerability scanner Control ivanti Intune solarwinds	NETWORK FIREWALL paloalto CISCO ASA Firewall TALARI Networks Check Point SOFTWARE TECHNOLOGIES LTD. FORTINET Cyberoam A SOPHOS Company Pulse Secure JUNIPER NETWORKS SONICWALL	NETWORK LOAD BALANCERS CISCO kemp radware BIG-IP Barracuda	NETWORK SECURITY Barracuda WAF Blue Coat CISCO Cisco Umbrella aruba CLEARPASS CISCO IronPort WSA WatchGuard websense
	VOICE Astersk CISCO Unified Communications Manager AVAYA	NETWORK WIRELESS CISCO WIRELESS aruba A H3C Company FortiAP cradlepoint ExtremeWireless JUNIPER NETWORKS UBIQUITI UniFi SONICWALL SecureFirst	NETWORK ROUTERS & SWITCHES CISCO FORTINET ADIRAN JUNIPER NETWORKS HUAWEI hp Networking Extreme networks riverbed Cloudiant

Cloud Solutions and Services – Public/Hybrid/Multi-cloud-Over the years, Allied Digital has gained tremendous expertise in public clouds such as AWS, Azure, and GCP to implement hybrid cloud models for enterprises.

	IaaS Provisioning and Support, Multicloud/Hybrid, Cloud Security
	Office 365/Google G-Suite Migration and Support
	Applications Migrations
	24x7x365 Comprehensive Cloud Support Services
	Cloud Engineering SaaS (BigData, IoT) Implementation/Support
	Cloud DevOps, Automation, Serverless Computing

Source: Aриhant Research Company

ADiTaaS: ITSM, ITSA and DSM Platform- The company is working with Tata Motors.



ADSL has strong Management

Nitin D Shah	Chairman & Managing Director	A transformational leader with the ability to innovate the industry with his foresight, Nitin Shah holds a degree in Electrical Engineering and a PG Diploma in Computer Management. He is a pioneer of India’s IT revolution. In his long and illustrious journey of 42 years, he has successfully led the company through various challenges, and now, in Version 6.0 he is charting the road map for creative disruption He won various awards like ‘Pride of India’ by the Institute of Economic Studies, CRN Hall of fame – Channel Legend by Indian Express, Contribution towards Digital Disruption, and Promising Entrepreneur of India by Economic Times. He formed Padma Pragna Trust, to support social initiatives with consultation and monetary incentives.
Nehal Shah	Executive Director	A member of the Executive Management Team and leads strategic and operational governance processes of the business. He has over 13 years of experience. Holds Bachelor’s degree in Engineering from University of Mumbai and Diploma in Computer Technology from Maharashtra State Board of Technical Education.
Gopal Tiwari	Chief Financial Officer	Gopal Tiwari is a qualified Chartered Accountant (ACA) and Company Secretary (ACS), he also holds a Bachelor of Commerce Degree from Calcutta University with 1st Ranking in the college. Having more than 25 years of diverse experience in Finance, Accounts, Secretarial and other Commercial activities, he has climbed the ladder of success working with various corporates possessing extensive domain knowledge and expertise. Prior to Allied Digital, he served as Chief Financial Officer (CFO) of Wall Street Finance Ltd. a Mumbai based BSE Listed Company, belonging to more than \$ 2.00 billion Spice Group.
Paresh Shah	Chief Executive Officer	With 30 years of experience in IT Applications, Infrastructure, and enterprise business processes, Paresh has won several large outsourcing and systems integration projects.

Source: Aриhant Research Company

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880