

20th November 2023

Allied Digital Services – BUY

CMP : Rs. 125.0
Target Price : Rs. 151.0
Upside : 20%+
Stop Loss : Rs. 108.0 (Closing basis)

Investment Thesis

- Allied Digital Services Ltd. (ADSL) has restructured its business in a transformative way and currently emphasizing on 6 key verticals, viz., Cloud services, cybersecurity, smart city solutions, infrastructure management services, software solutions, and workplace management services. ADSL started these initiatives from FY20 onwards as the management realized that the industry's preference for the cloud migration was undergoing a massive change. Over the years, ADSL has gained tremendous expertise in public clouds such as AWS, Azure and GCP to implement hybrid cloud models for enterprises. Due to cloud and remote working, enterprises are now vulnerable to cyber threats, which has opened up tremendous opportunity for ADSL to counteract these risks with the help of consultancy audits, cybersecurity implementation, etc.
- Technology is at the core of ADSL and it offers IT services, a high-margin recurring revenue annuity business. For the upcoming five years, client has already committed to a pure services revenue of more than Rs.2,000Cr globally. To assist businesses, ADSL has developed a NOC/SOC and a global service delivery center in Mumbai. Since the beginning, this business has been a legacy, but now large businesses are doing vendor consolidation to a single vendor. As a result of this, ADSL has secured one extremely sizable contract in the USA from one of the biggest auto manufacturers in the world by displacing hundreds of contractors.
- By creating a cutting-edge conversational banking platform in fintech sector, ADSL has established a ground breaking Fino Allied platform, which can be expanded to include insurance industry and other sectors where conversational bots can be used to conduct transactions. Emerging technologies like NLP, AI/ML, blockchain, data analytics and data science has been used by this platform. It has already tied up with a Kolkata based company, who has a core banking solution and also discussions are going on with 4-5 other banks.
- ADSL is also regarded as a Master Systems Integrator, a pioneer, and a market leader for smart city solutions. Making the whole cities of Pune and PCMC digital, 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). ADSL has been awarded smart city projects in Amritsar, Jalandhar, Sultanpur Lodhi, Pune, Pimpri Chinchwad, Kalyan Dombivali, Aurangabad, Bidkin, Rajkot, Solapur, Jaipur & Lucknow.

Financials

- ADSL's revenue and PAT grew by CAGR of 24.0% and 40.0%, respectively during FY18-23 mostly due to its diversification into new-age technologies like, cloud services, cybersecurity, etc.

Consol. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	3,581	4,847	6,601	7,327	8,353
EBITDA	447	700	883	989	1,137
EBITDA Margin (%)	12.5%	14.5%	13.4%	13.5%	13.6%
PAT	192	610	537	602	692
EPS (Rs.)	3.5	11.1	9.8	11.0	12.6
P/E (x)	35.9	11.3	12.9	11.5	10.0
RoE (%)	4.1%	11.6%	10.2%	10.5%	11.0%

Stock Data

Market Cap (Rs. Mn)	6,980.0
Market Cap (\$ Mn)	84.10
Shares O/S (in Mn)	55.10
Avg. Volume (3 month)	494,000
52-Week Range (Rs.)	156.90 / 71.55

Shareholding Pattern

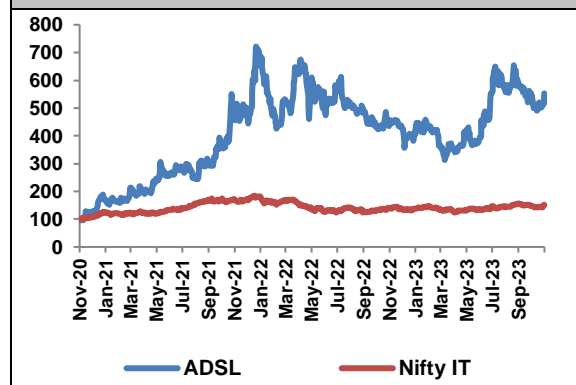
Promoters	52.39%
FII's	0.00%
Institutions	0.00%
Others (incl. body corporate)	47.61%

Key Ratios

Div Yield	1.0%
TTM PE	14.2x
ROE	10.1%
TTM EPS (Rs.)	8.9/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	2.1	-0.7	25.0
NIFTY IT	1.8	5.2	8.5



- ADSL has reported 0.7% QoQ growth in revenue to Rs.1,702mn mainly led by India business which grew by 53% YoY in Q2FY24 and 62% YoY in H1FY24. Management is anticipating that global business will see a resurgence in the activity level in H2FY24 and expecting increased wins and deliveries in the coming months.
- In Q2FY24, ADSL bagged contract from Adani Wilmar, Coromandel International and SBI Life Insurance in India as well as contracts with real estate firm, bank and energy company in the US.
- In the recent concall, the management has guided for Rs.1,000Cr revenue with 16-18% EBITDA margin in the next 2-3 years on the back of strong and constantly increasing order pipeline and higher contribution from service business.

Key Business Highlights

- 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. ADSL has a direct presence in India, USA, UK, Singapore, Australia Ireland, China, Japan and Brazil and it generates revenues from global customers which accounts for ~75% of total revenues and remaining ~25% comes from domestic market.
- Since FY15, ADSL is also engaged into smart city solutions and has completed the Pune, PCMC surveillance project. Following the success of the Pune project, the company currently has ten such smart city projects including Lucknow, Sultanpur, Amritsar, Jalandhar, Dombivali Kalyan, Aurangabad, Bidkin, Rajkot, Solapur and Pune which are in different stages of their execution.
- ADSL is currently having presence in 6 verticals, viz, Cloud Services, Cybersecurity, Smart City Solutions, Infrastructure Management Services, Software Solutions and Workplace Management Services.

Valuation

ADSL, being a multi-national IT company has subsidiaries in multiple countries such as USA, UK, Ireland, Brazil, Japan, China, Singapore, etc, but its maximum business comes from the US subsidiary (more than 80%). Brazil, China and Japan offices were opened during FY22 and ADSL foresees new opportunities of growth in countries like Japan, Germany, UK and Latin America. ADSL is investing into building new partnerships for business growth strategically in Europe as well as rest of the world.

ADSL's current orderbook outstanding is at Rs.1,600Cr, which is 2.4x of its TTM revenue. Its orderbook generally has execution period of around three year.

In the recent past, the company did several transformation projects such as cloud migration, multi-cloud applications. Management guided for that it will continue to invest in areas such as Artificial Intelligence (AI), Robotic Process Automation, Cybersecurity, and certain startup incubation. Despite having emphasis on newer technologies, ADSL is trading at Adj. PE of 14.2x TTM Adj. EPS of Rs. 8.90/-, giving a good potential for long term investment.

We are assigning BUY rating to Allied Digital Services Ltd. (ADSL) and value at 12.0x FY25E EPS of Rs.12.60 to arrive at target price of Rs.151.00, an upside of ~20.0%+.

Risk & Concern

- ADSL has major exposure in the US and Europe market, which is currently going through recessionary phase. Any further recessionary pressure or postponement of discretionary spend may have negative impact on future growth of ADSL.
- ADSL has high client concentration as it generates 33% and 48% revenue from top-5 and top-10 clients out of total 187 client as of Q2FY24. Any loss of business from its major client may has significant impact on revenue growth of ADSL.
- ADSL's 32% of the revenue came from India in Q2FY24 and remaining 68% from rest of world. This make ADSL exposed to currency fluctuations.

Graphs & Charts

Figure 1: Net Sales Trend

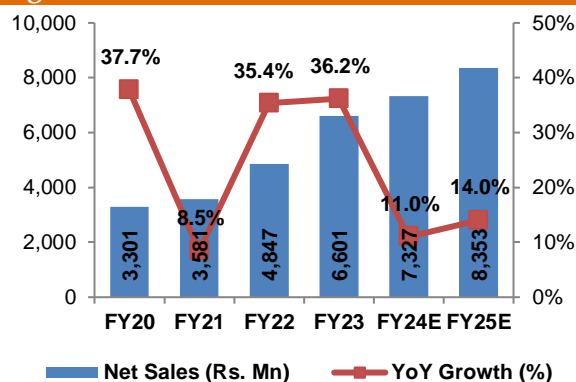


Figure 2: EBITDA & EBITDA Margin Trend

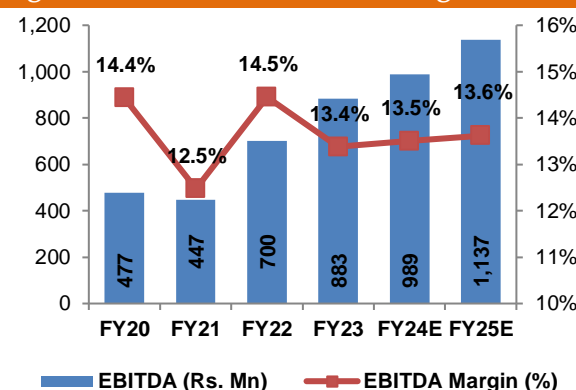


Figure 3: PAT Trend

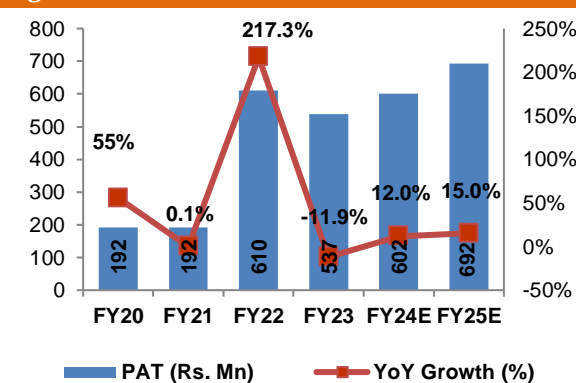
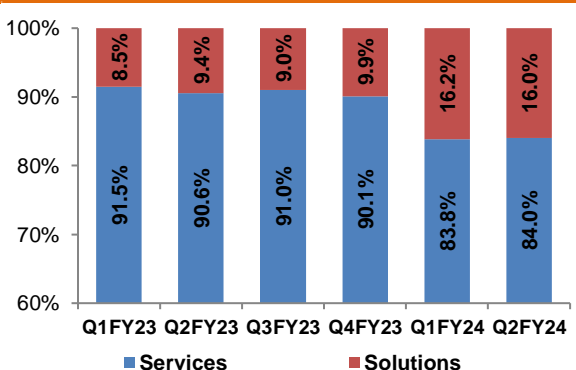


Figure 4: Higher Solutions Contribution



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