

CMP: INR 974

Rating: Buy

Target Price: 1,211

Stock Info

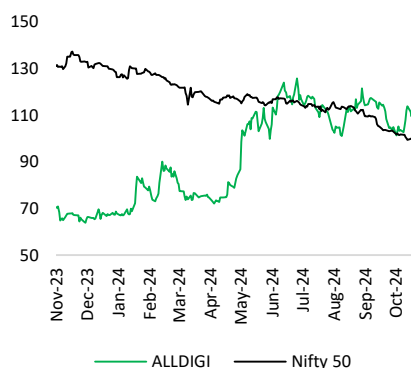
BSE	532633
NSE	ALLDIGI
Bloomberg	ALLDIGI IN
Reuters	ALLS.NS
Sector	BPO/ITeS
Face Value (INR)	10
Equity Capital (INR Mn)	276.5
Mkt Cap (INR Mn)	14,844
52w H/L (INR)	1,250 /691
Avg Yearly Vol (in 000')	165

Shareholding Pattern %

(As on Dec, 2024)

Promoters	73.3
Public & Others	26.7

ALLDIGI Vs Nifty



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Revenue for the quarter was INR 1,395 Mn (above the estimated INR 1,380 Mn) Up 16.4% YoY/ 6.1% QoQ. EBITDA for Q3FY25 was INR 324 Mn, which grew by 6.7% YoY increase and a 5.3% QoQ, below our estimate of INR 352 Mn. EBITDA margin down by 212.5 bps YoY and 18.8 bps QoQ to 23.3% in Q3FY25, due to investments for specific client requirements and future growth below our estimate of 25.5%PAT stood at INR 199 Mn above our estimates of INR 177 Mn, up by 64.1% QoQ / 76.9% YoY. The sequential increase in PAT was driven by forex translation gains and a lower base in Q2, which was impacted by the dividend withholding tax. Customer Experience Management (CXM): Revenue for the period stood at INR 1,049 Mn, up by 29.9% YoY growth and an 8.46% sequential growth. The company achieved mining and new sales with an ACV of ~INR 178 Mn and added one new logo during the period. Employee Experience Management (EXM): Revenue stood at INR 346 Mn, reflecting a decline of 11.5% YoY and 0.35% YoY.

The company added ~4.41 Mn net employee records, representing a 10.8% increase YoY and a 1.8% sequential growth. Additionally, 33 new logos were added, contributing to an ACV of ~INR 90 Mn.

Investment Rationale

Strong growth traction from EXM Business: EXM has been maintained with 4.4 Mn employee records processed in Q3FY25 in the managed services space. The sales engine for EXM has adopted Gen AI bots, especially for income tax and payroll rules and calculations. Additionally, these bots are utilized for client-employee handbooks to extract answers when queries are raised by customer employees. Interactive visual dashboards have also been introduced to analyze monthly trends in payroll, offering a simple drag-and-drop approach, allowing for customizable reports. These features have been well received by large customers. The EXM business has shown ~31% QoQ growth. A dip in labor law compliance business was observed, primarily due to the peak in the Q1FY26. As a result, payroll now comprises the largest portion of the EXM business.

CXM, continue focus on International Expansion: Speech analytics has been implemented in healthcare for call analysis and insights, including word clouds. Significant tech and product upgrades have been made across the CXM customer lifecycle and collections. Service delivery remains strong, topping partner leagues in multi-partner scenarios. The focus on international markets continues, achieving 13.6% higher margins. A slight dip in domestic CXM FT count is offset by growth in international FT. CXM contributes two-thirds of overall revenue with 100% recurring revenue. The key challenge is generating one mid-to-large deal per quarter to sustain the 15-20% YoY growth projection.

Outlook and Valuation: The company is targeting 15-20% YoY growth in CXM, supported by an increase in international contracts and a steady 3-5% QoQ growth. In EXM, revenue conversion is taking longer due to the complexity of payroll migrations, but the company remains committed to maintaining its leadership position. Positioned for long-term growth, the company is backed by strong recurring revenues and significant investments in AI and digital solutions. Manila headcount has risen by 15% QoQ, driven by growth in healthcare and BFSI clients, with the increase in international headcount aimed at supporting higher-margin business. Domestic sales are anticipated to ramp up from existing customers. **We expect Alldigi Tech's revenue, EBITDA, and PAT to grow at a CAGR of 20.1%, 21.1%, and 9.9%, respectively, over FY25-FY27E. We used DCF model to arrive at a target price of INR 1,211 per share. Accordingly, we have maintained our "BUY" rating on the stock**

Exhibit 1: Financial Overview

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	3,905	866	489	32.1	22.17%	13.79	25.4
FY24	4,694	1,156	640	42.0	24.62%	10.41	19.4
FY25E	5,485	1,301	829	54.4	23.72%	9.23	15.0
FY26E	6,545	1,566	823	54.0	23.93%	7.74	15.1
FY27E	7,911	1,909	1,001	65.7	24.13%	6.40	12.39

Source: Company reports, Arihant Capital Research

Exhibit 2: Financial Overview

In Mn	Q3FY25	Q2FY25	Q3FY24	QoQ (%)	YoY(%)
Revenue from operations	1,395	1,314	1,198	6.1%	16.4%
Employees benefits expense	793	758	669	4.6%	18.4%
Other expenses	278	249	225	11.6%	23.6%
EBITDA	324	308	304	5.3%	6.7%
EBITDA Margin (%)	23.3%	23.4%	25.4%	-18.9	-212.5
Depreciation and amortisation expense	106	101	93	4.5%	13.8%
EBIT	219	207	211	5.6%	3.6%
EBIT Margin (%)	15.7%	15.7%	17.6%	-7.5	-194.8
Other income	35.8	-2.5	7.50	NA	377%
Finance costs	9.7	10.4	9.00	-6.7%	8%
Exceptional Item	0	6.1	-	-	-
PBT	245	200	210	22.2%	16.7%
Total tax expense	46	79	97	-42.3%	-53.1%
PAT	199	121	113	64.1%	76.9%
Segment Revenue (In Mn)	Q3FY25	Q2FY25	Q3FY24	QoQ (%)	YoY(%)
Customer Experience Management (CXM)	1,048.80	967.00	890.40	8.45%	29.9%
Employee Experience Management (EXM)	345.80	347.00	406.70	-0.3%	-11.5%

Source: Company reports, Arihant Capital Research

Q3FY25 Concall highlights

The company aims for 15-20% YoY growth in CXM, supported by increasing international contracts, with a steady 3-5% QoQ growth. In EXM, revenue conversion is taking longer due to complex payroll migrations, but the company remains committed to maintaining its leadership position. The company is positioned for long-term growth, backed by strong recurring revenues and investments in AI and digital solutions.

- 1-1.5% YoY margin expansion over last 2 years.
- Launched Smart HR Basil platform targeting SMEs (8 customers signed, ACV of INR 10 Mn).
- Implemented Gen bots for payroll tax calculations and employee handbook queries. AI-driven call quality monitoring to optimize performance.
- Records processed per FTE up 3% YoY.
- Revenue Growth 15-20% YoY guidance maintained.
- Manila headcount up 15% QoQ due to growth in healthcare and BFSI clients. Increasing international headcount to enhance higher-margin business.
- Focus on automation and AI-based efficiency tools. AI-powered customer engagement platform for the US market (early-stage traction).
- AI tools expected to improve conversion rates and reduce training overheads.
- International business helping to offset salary and rental cost inflation.
- CXM- 100% recurring revenue model (contracts renewed every 3 years). EXM- 75-80% recurring revenue; 20-25% one-time revenue from vouching, compliance work, and onboarding fees.
- Long-Term CXM Scaling Strategy- Targeting larger customers with 500-1000 seats. Breaking past the 1000-seat international threshold to secure larger RFPs.

Exhibit 10:Key Financials

Income statement (INR mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	3,905	4,694	5,485	6,545	7,911
Net Sales	3,905	4,694	5,485	6,545	7,911
YoY (%)	23%	20%	17%	19%	21%
Personnel/ Employee benefit expenses	2,217	2,642	3,130	3,728	4,498
YoY (%)	29%	19%	18%	19%	21%
Manufacturing & Other Expenses	822	896	1,054	1,251	1,504
YoY (%)	27%	9%	18%	19%	20%
Total Expenditure	3,039	3,538	4,184	4,979	6,002
YoY (%)	8%	34%	13%	20%	22%
EBITDA	866	1,156	1,301	1,566	1,909
YoY (%)	8%	34%	13%	20%	22%
EBITDA Margin (%)	22%	25%	24%	24%	24%
Depreciation	283	336	422	519	639
EBIT	583	820	879	1,046	1,269
EBIT Margin (%)	15%	17%	16%	16%	16%
Interest Expenses	37	38	42	46	51
Non-operating/ Other income	99	69	81	96	116
PBT	645	851	1,095	1,097	1,335
Tax-Total	157	211	265	274	334
Net Profit	489	640	829	823	1,001
PAT Margin	13%	14%	15%	13%	13%
Shares o/s/ paid up equity sh capital	15	15	15	15	15
Adj EPS	32.1	42.0	54.4	54.0	65.7
Dividend payment	305	457	488	518	564
Dividend payout (%)	62%	71%	59%	63%	56%
Retained earnings	184	183	342	304	437
Balance sheet					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	152	152	152	152	152
Reserves & Surplus/ Other Equity	2,144	2,302	2,644	2,948	3,386
Networth	2,297	2,455	2,796	3,101	3,538
Unsecured Loans/ Borrowings/ Lease Liabilities	439	447	482	521	563
Other Liabilities	77	93	97	102	107
Total Liabilities	3,336	3,676	4,121	4,585	5,218
Total Funds Employed	6,344	6,996	7,854	8,748	9,977
Application of Funds					
Net Fixed Assets	-78	-120	-	-	-
Capital WIP	120	-	-	-	-
Investments/ Notes/ Fair value measurement	468	563	658	785	949
Current assets	2,347	2,430	2,810	3,084	3,452
Inventory	-	-	-	-	-
Days	-	-	-	-	-
Debtors	592	657	839	994	1,193
Days	54	55	56	55	55
Other Current Assets	94	93	112	134	161
Cash and Cash equivalent	901	817	872	809	752
Current Liabilities/Provisions	711	865	937	1,063	1,221
Creditors / Trade Payables	381	419	489	584	706
Days	-	1	2	3	4
Liabilities	88	173	179	185	193
Net Current Assets	1,636	1,565	1,873	2,022	2,231
Total Asset	3,336	3,676	4,121	4,585	5,218
Total Capital Employed	1,700	2,111	2,248	2,563	2,987

Key Financials

Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Retained Earning	489	640	829	823	1,001
Adjustments: Add					
Depreciation and amortisation	283	336	422	519	639
Interest adjustment	(62)	(31)	(39)	(50)	(66)
Trade receivables	(20)	(65)	(182)	(155)	(199)
Trade payables	131	38	71	95	122
Other Liabilities and provisions	24	85	5	6	8
Other Assets	(181)	(18)	(64)	(74)	(86)
Taxes	(16)	(33)	(15)	(17)	(19)
Net cash from operating activities	352	491	621	659	873
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	(363)	(400)	(506)	(638)	(799)
Net Sale/(Purchase) of investments	101	(26)	(14)	(31)	(48)
Others	(10)	(70)	(29)	(35)	(63)
Net cash (used) in investing activities	(272)	(496)	(550)	(704)	(910)
Interest expense	(2)	(4)	11	13	15
Dividend paid	(913)	(305)	(457)	(488)	(518)
Other financing activities	(286)	(482)	(488)	(518)	(564)
Net cash (used) in financing activities	17	(30)	11	13	15
Closing Balance	904	820	875	812	754
FCF	41	60	181	83	166
Capex (% of sales)	311.40	430.50	548.52	589.04	711.98

Key Ratios

Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	-	-	-	-	-
Net Debt / Equity	-0.20	-0.15	-0.14	-0.09	-0.05
Debt / EBITDA	0.00	0.00	0.00	0.00	0.00
Current Ratio	-0.54	-0.32	-0.30	-0.19	-0.10
DuPont Analysis					
Sales/Assets	1.17	1.28	1.33	1.43	1.52
Assets/Equity	1.45	1.50	1.47	1.48	1.47
RoE	0.21	0.26	0.30	0.27	0.28
Per share ratios					
Reported EPS	32.1	42.0	54.4	54.0	65.7
Dividend per share	20.0	30.0	32.0	34.0	37.0
BV per share	150.7	161.1	183.5	203.5	232.2
Cash per Share	59.1	53.6	57.2	53.1	49.3
Revenue per Share	256.2	308.0	359.9	429.5	519.1
Profitability ratios					
Net Profit Margin (PAT/Net sales)	0.11	0.13	0.14	0.15	0.13
EBITDA / Net Sales	0.22	0.25	0.24	0.24	0.24
EBIT / Net Sales	0.15	0.17	0.16	0.16	0.16
ROCE (%)	0.22	0.29	0.28	0.30	0.32
Activity ratios					
Inventory Days	0.0	0.0	0.0	0.0	0.0
Debtor Days	54.4	54.5	55.8	55.4	55.1
Creditor Days	0.0	0.0	0.0	0.0	0.0
Leverage ratios					
Interest coverage	15.9	21.6	21.0	22.8	25.1
Debt / Asset	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV / EBITDA	13.79	10.41	9.23	7.74	6.40
PE (x)	25.39	19.38	14.96	15.08	12.39

Source: Company reports, Arianth Capital Research

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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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