

**CMP: INR 267**

**Rating: Accumulate**

**Target Price: 300**

**Stock Info**

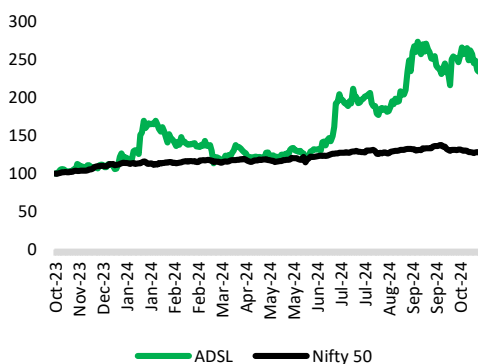
BSE	532875
NSE	ADSL
Bloomberg	ALDS IN
Reuters	ADIS.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR Mn)	274.2
Mkt Cap (INR Mn)	14,765
52w H/L (INR)	319 / 112
Avg Yearly Vol (in 000')	1238

**Shareholding Pattern %**

(As on Sept, 2024)

Promoters	52.19
Public & Others	47.81

**ADSL Vs Nifty**



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Allied Digital services Ltd (ADSL) reported revenue above estimate; Margin & PAT below estimate led by higher other expenses. Consolidated revenue stood at INR 2,030 Mn, against Q1FY25 of INR 1,791 Mn registering a growth 19.3% YoY/1.33% QoQ. above with our estimate of INR 1,931 Mn. EBITDA stood at INR 192 Mn, against Q1FY25 of INR 191 Mn, down by 6.4 %YoY & up by 0.3 % QoQ). Below with our estimate of INR 237 Mn. On the margins front, EBITDA margin down by 260bps YoY/122 bps QoQ to 9.5% against 10.7% in Q1FY25 led by higher other expenses (Margin estimated 12.4%). Consolidated PAT saw a growth of +1.1 %YoY/ 11.4%QoQ to INR 116 Mn against Q1FY25 of INR 104 Mn. Below with our estimate of INR 144 Mn.

**Expanding Global Presence**

The company has made significant progress in expanding its operations internationally, starting with a key project in the UAE for a large financial institution. This entry into the Middle Eastern market boosts its ability to attract major clients and support contracts globally. Notably, Allied Digital has also secured important projects, like the Pune Safe City initiative, and has ongoing engagements across a range of industries, demonstrating its growing global reach and diversified client base.

**Promising Outlook for Cybersecurity and Data Center Services**

The company is prioritizing high-demand areas like cybersecurity and data center services, which are essential for many current projects, including Pune Safe City and other enterprise solutions. As cybersecurity and data centers become more important for both government and corporate clients, Allied Digital expects these areas to contribute strongly to future growth.

**Strong Order Book**

Management has confirmed its goal of reaching INR 10,000 Mn in revenue over the next 6-7 quarters, supported by new contracts and a robust pipeline of potential deals. In Q2FY25 alone, the company added INR 6,750 Mn in new and renewed contracts. As onboarding costs stabilize, Allied Digital expects its operating margins to improve, with efficiency gains from these large contracts adding further to revenue growth in the coming quarters.

**Outlook and Valuation:** Target of INR 10,000 Mn within the next 6-7 quarters, supported by both government and private sector projects. While there were some one-time expenses impacting current margins, the company expects these to stabilize, aiming for a 15% margin over time. 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 18%/~21%/25%, respectively, over FY25-FY27E. We used DCF model to arrive at a target price of INR 300 per share (Earlier target price of INR per share 290). Accordingly, we revised our rating to "Accumulate" from Buy earlier on the stock**

**Exhibit 1: Financial estimates**

Particulars (INR mn)	Q2FY25	Q1FY25	Q2FY24	QoQ (%)	YoY (%)
Revenue	2,030	1,791	1,702	13.3%	19.3%
Employee cost	350	348	318	0.6%	10.1%
Other Expenses	1,488	1,252	1,178	18.8%	26.3%
EBITDA	192	191	206	0.5%	-6.8%
EBITDA margin (%)	9.46%	10.68%	12.10%	(122)bps	(264)bps
Depn & amort.	48	46.5	42	4.1%	15.2%
EBIT	143.7	144.9	164	-0.8%	-12.4%
Interest expense	25	14	11	81.4%	130.9%
Other Income	38	10	3	-	-
Pretax profit	156	141	156	10.6%	-
Tax	40	37	41	8.1%	-2.4%
Tax rate (%)	25.64%	26.30%	26.28%	-2.5%	-2.4%
Adjusted Net profit	116	104	115	11.5%	0.9%
Exceptionals	-	-	-	-	-
Reported Net Profit	116	104	115	11.5%	0.9%
EPS (INR)	1.83	1.66	2.09	10.2%	-12.4%

**Source: Arihant Research, Company**

**Q2FY25 Concall highlights**

The company is expanding their presence in data centers, with new projects in Pune and opportunities tied to government initiatives. It is expanding its cybersecurity client base and investing further in capabilities.

The company has secured INR 6,750 Mn in new orders and contract renewals, with the largest order of INR 4,300 Mn contract for the Pune Safe City project.

It is involved in these projects, with revenue from Pune Smart City expected to start in Q3 and more substantial contributions anticipated by Q4 and early next year.

Key clients include a prominent life insurance company, a specialty packaging firm, and several public sector enterprises.

**Opened a new office and hired local staff to support clients in Dubai and Abu Dhabi, aiming to strengthen its market position in the Middle East. Hired ~65 people.**

The company has a strong order pipeline, especially in the government sector, with large multi-crore projects under bid evaluation. Additionally, private-sector deals, including international projects, are progressing, with some in the final negotiation stages.

A long-term focus on recurring revenue projects, building a resilient business model.

The demand for managed services in cybersecurity and data center operations is anticipated to grow. The company is positioning itself by investing in these areas to enhance its service offerings.

**Non-recurring expenses, such as celebratory events and additional provision costs, impacted margins this quarter. These are expected to normalize moving forward.**

An improvement in DSO, dropping from 87 to 72 days.

The growing need for working capital to support business expansion and project execution, especially for larger government projects.

**The company reduced its debt from INR 120 Mn to 80 Mn, yet finance costs rose due to reclassification of interest expenses, rather than an increase in debt levels.**

**ROCE reached ~10%, with potential for a higher return when excluding real estate holdings.**

The government sector projects are substantial, ranging between INR 300-400 Mn and potentially as high as INR 4000+ Mn, positioning the company for high revenue from public sector engagements.

**The management sees cybersecurity and private security as increasingly integral to managed services, driven by customer demand for secure digital solutions.**

Exhibit 2: Geographical Presence

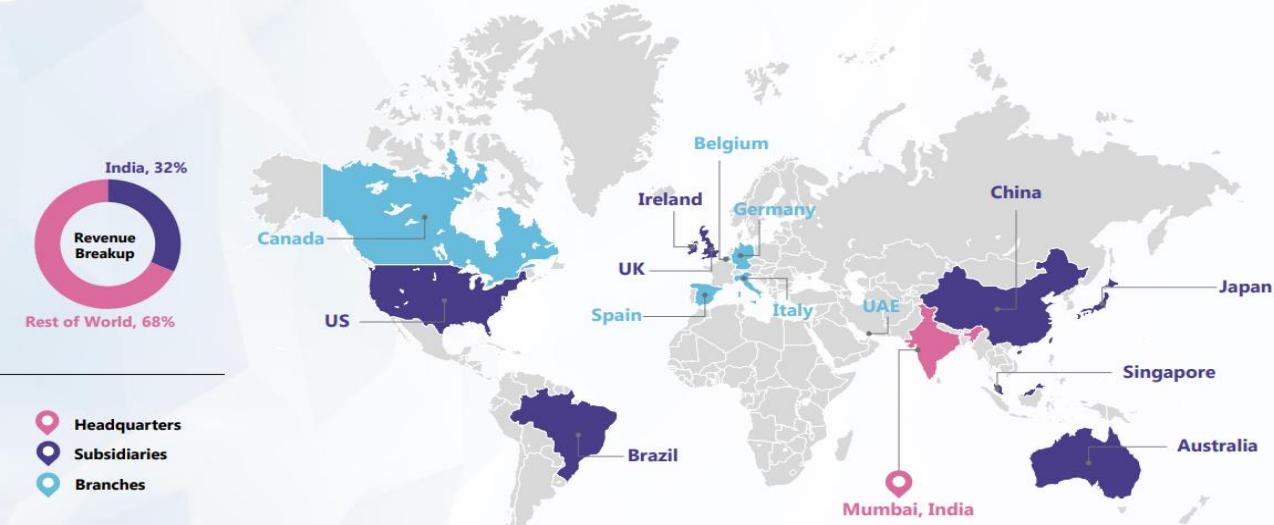
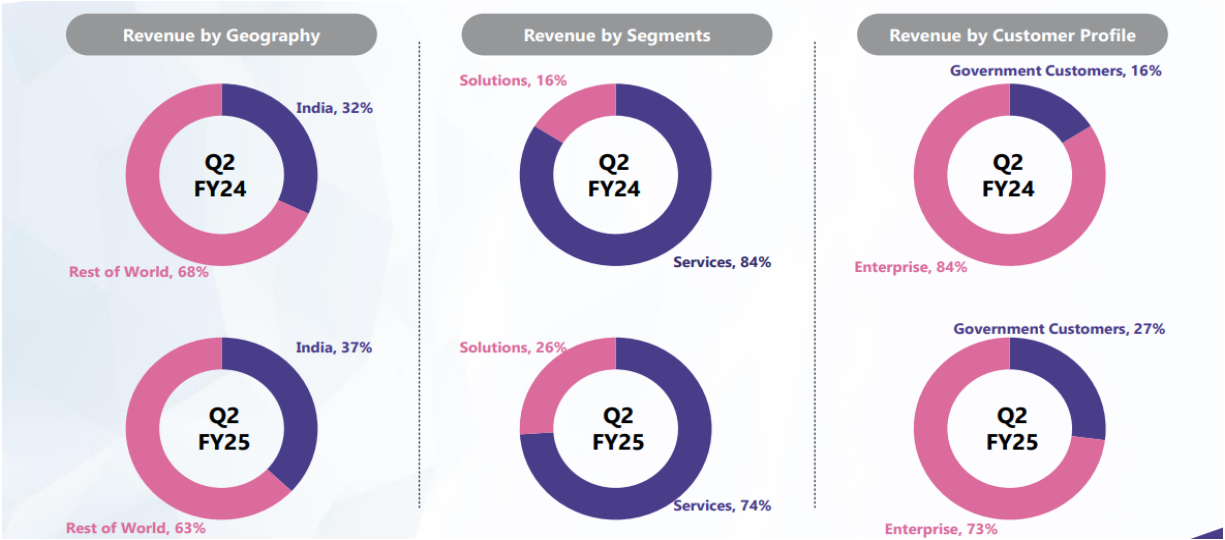


Exhibit 3: Integrated Business Offering



Exhibit 4: Revenue Mix



Source: Arihant Research, Company

# Allied Digital Services Ltd. Q2FY25 Result Update

## DCF Valuation

### Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta (2 Yr)	0.9
CMP (INR)	267

### Valuation Data

Total Debt (long term borrowings) (2024)	117
Cash & Cash Equivalents (2024)	1,379
Number of Diluted Shares (2024)	55
Tax Rate (2025)	7.84%
Interest Expense Rate (2025)	28.8%

MV of Equity	14,765
Total Debt	117
<b>Total Capital</b>	<b>14,882</b>

### WACC

We	99.2%
Wd	0.8%
Ke	12.6%
Kd	26.6%

<b>WACC</b>	<b>12.72%</b>
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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)	665	882	1,004	1,132	1,265	1,389	1,505	1,611	1,701	1,774	1,824	1,881
Dep	180	207	228	250	275	305	330	354	373	389	400	413
Purchase of Assets	245	309	339	373	411	454	493	527	557	580	597	616
Changes in Working Capital	(355)	(422)	(423)	(430)	(442)	(507)	(549)	(587)	(621)	(647)	(665)	(686)
FCFF	954	1,202	1,315	1,439	1,572	1,746	1,892	2,024	2,138	2,229	2,293	2,364
% Growth in Post Tax EBIT		32.7%	13.8%	12.8%	11.1%	9.8%	8.4%	7.0%	5.6%	4.2%	2.9%	3.1%
As % of Post Tax EBIT												
Dep	27.1%	23.5%	22.7%	22.1%	21.8%	21.9%	21.9%	21.9%	21.9%	21.9%	21.9%	21.9%
Purchase of Assets	36.9%	35.0%	33.8%	33.0%	32.5%	32.7%	32.7%	32.7%	32.7%	32.7%	32.7%	32.7%
Changes in Working Capital	-53.4%	-47.8%	-42.2%	-38.0%	-35.0%	-36.5%	-36.5%	-36.5%	-36.5%	-36.5%	-36.5%	-36.5%
FCFF	954	1,202	1,315	1,439	1,572	1,746	1,892	2,024	2,138	2,229	2,293	2,364
Terminal Value												24,582
<b>Total Cash Flow</b>	<b>954</b>	<b>1,202</b>	<b>1,315</b>	<b>1,439</b>	<b>1,572</b>	<b>1,746</b>	<b>1,892</b>	<b>2,024</b>	<b>2,138</b>	<b>2,229</b>	<b>2,293</b>	<b>26,946</b>

Enterprise Value (EV) 15,334

Less: Debt 117

Add: Cash 1,379

Equity Value 16,596

Equity Value per share (INR) 300

% Returns 12.40%

Rating Accumulate

WACC (%)

g(%)										
300	2.10%	2.35%	2.60%	2.85%	3.10%	3.35%	3.60%	3.85%	4.10%	
11.72%	314	319	324	330	335	341	348	354	362	
11.97%	306	311	315	320	326	331	337	344	350	
12.22%	298	303	307	312	317	322	327	333	340	
12.47%	291	295	299	304	308	313	318	324	329	
12.72%	284	288	292	296	300	305	310	315	320	
12.97%	277	281	284	288	292	297	301	306	311	
13.22%	271	274	278	281	285	289	293	298	303	
13.47%	265	268	271	275	278	282	286	290	295	
13.72%	259	262	265	268	272	275	279	283	287	

Source: Company reports, Arihant Capital Research, Figures are in INR Mn. except share price and percentage data

**Allied Digital Services Ltd Financials (Consolidated)**

Income Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Revenues	6,871	8,166	10,286	11,314
Change (%)	4.1%	18.9%	26.0%	10.0%
Cost of Goods Sold (COGS)	4,074	4,802	6,007	6,562
Gross Profit	2,797	3,365	4,279	4,752
Employee costs	1,381	1,633	2,057	2,263
Other expenses	582	653	823	905
Total Expenses	6,037	7,088	8,887	9,730
EBITDA	834	1,078	1,399	1,584
EBITDA Margin	12.13%	13.20%	13.60%	14.00%
Depreciation	164	180	207	228
EBIT	670	898	1,192	1,356
Interest	52	67	67	67
Other Income	12	35	52	63
PBT	630	866	1,177	1,352
Exceptional Items	0	0	0	0
PBT after exceptional Items	630	866	1,177	1,352
Tax	171	225	306	351
Rate (%)	6.7%	7.8%	8.5%	8.8%
PAT	458.40	640.60	870.97	1,000.38
PAT Margin (%)	6.7%	7.8%	8.5%	8.8%

Balance Sheet (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
Sources of Funds				
Share Capital	276.5	274.2	274.2	274.2
Reserves & Surplus	5,510	6,679	7,550	8,551
Net Worth	5,786	6,954	7,825	8,825
Loan Funds	596	559	559	559
MI, Deferred Tax & other Liabilities	79	81	81	81
Capital Employed	7,781	8,745	9,726	10,762
Application of Funds				
Gross Block	8,473	9,373	10,273	11,173
Less: Depreciation	7,401	8,057	8,776	9,558
Net Block	1,071	1,315	1,496	1,614
CWIP	-	-	-	-
Other Non-current Assets	395	434	478	525
Other Current Assets	319.4	351.3	386.5	425.1
Net Fixed Assets	1,785	2,101	2,360	2,565
Investments	62.20	65.31	68.58	72.00
Debtors	1,499	1,815	2,057	2,263
Inventories	481	591	693	735
Cash & Bank Balance	1,267	1,447	1,449	1,763
Loans & Advances & other CA	827	944	1,079	1,234
Total Current Assets	4,479	5,247	5,764	6,546
Current Liabilities	1,243	1,463	1,556	1,573
Provisions	225	225	225	225
Net Current Assets	3,236	3,784	4,208	4,973
Total Assets	7,781	8,745	9,726	10,762

Source: Company, Arianth Research

**Allied Digital Services Ltd Financial (Consolidated)**

Cash Flow Statement (INR Mn)				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>PBT</b>	<b>630</b>	<b>866</b>	<b>1,177</b>	<b>1,352</b>
Adjustments: Add	865	726	977	1,161
Change in assets & Liabilities	(38)	(352)	(422)	(423)
Net Cash From Operations	865	726	977	1,161
<b>Capex</b>	<b>(178)</b>	<b>(210)</b>	<b>(333)</b>	<b>(265)</b>
Cash From Investing	(321)	(341)	(618)	(419)
Other financing activities	296	(20)	17	18
<b>Finance cost paid</b>	<b>(52.10)</b>	<b>(67.13)</b>	<b>(67.13)</b>	<b>(67.13)</b>
Cash From Financing	1	(189)	(356)	(400)
<b>Net Increase/ Decrease in Cash</b>	<b>544</b>	<b>195</b>	<b>3</b>	<b>341</b>
<b>Cash at the beginning of the year</b>	<b>835</b>	<b>1,379</b>	<b>1,574</b>	<b>1,577</b>
Cash at the end of the year	1,379	1,574	1,577	1,918

Key Ratios				
Year End-March	FY24	FY25E	FY26E	FY27E
<b>Per share (INR)</b>				
EPS	8.3	11.7	15.9	18.2
BVPS	112	127	143	161
<b>Valuation (x)</b>				
P/E	32.2	22.9	16.8	14.6
P/BV	2.4	2.1	1.9	1.7
EV/EBITDA	14.6	11.2	9.3	8.1
<b>Return ratio (%)</b>				
EBIDTA Margin	12.1%	13.2%	13.6%	14.0%
PAT Margin	6.7%	7.8%	8.5%	8.8%
ROE	7.4%	9.2%	11.1%	11.3%
ROCE	8.6%	10.3%	12.3%	12.6%
<b>Leverage Ratio (%)</b>				
Total D/E	0.0	0.0	0.0	0.0
<b>Turnover Ratios</b>				
Asset Turnover (x)	1.5	1.6	1.8	1.7
Inventory Days	481	591	693	735
Receivable Days	108	108	108	108
Payable days	73	73	73	73

Source: Company, Arianth 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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