

**Buy**

<b>Price</b>	Rs839
<b>Target Price</b>	%upside
Rs1,240	48↑

<b>Market Capitalisation</b>	
Rs14,503mn	(US\$359mn)

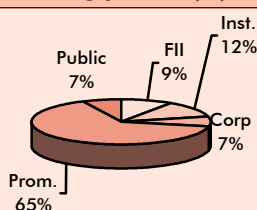
<b>52 wk range H/L (Rs)</b>	1,129/190
-----------------------------	-----------

<b>Shares o/s (mn)</b>	<b>Daily vol (mn shares)</b>
17.29	0.02

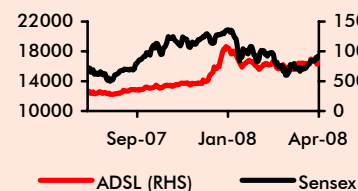
<b>Reuters</b>	<b>Bloomberg</b>
ADIS.BO	ALDS IN

<b>Performance (%)</b>				
	<b>1M</b>	<b>3M</b>	<b>12M</b>	<b>YTD</b>
Absolute	5.7	(1.6)	N.A.	2.8
Rel to Sens (0.4)	2.4	N.A.	N.A.	20.0

Source: Bloomberg

**Shareholding pattern (%)**

Source: Capitaline

**Price performance**

Source: Capitaline

**Financials (Rs mn)**

(Yr end- Mar)	FY08	FY09E	FY10E
Total Rev.	2,973	5,325	8,934
%change	90.2	79.1	67.8
EBITDA	662	1,279	2,250
EBITDA mrgn (%)	22.3	24.0	25.2
Net profit	429.4	812.4	1,472.1
Diluted EPS, Rs	24.7	47.0	85.1
%change	87.9	89.9	81.2
RoE(%)	34.8	35.6	43.0
Net D/E(x)	0.04	0.10	0.32
P/E(x)	33.9	17.9	9.9
P/BV(x)	7.7	5.4	3.5
EV/EBITDA(x)	21.8	11.3	6.4

Source: Company

**Analyst**

Parikshit Kandpal  
Tel.: +91-22-3043 3201  
parikshitkandpal@ambitcapital.com

# Allied Digital Services

Allied Digital Services (ADSL) reported a strong performance during Q4FY08, slightly exceeding our expectations. A brief analysis of the performance reported by the company during the quarter is discussed here with:

During Q4FY08, ADSL registered operating income of Rs.819.5 mn, a growth of 69.5% as compared to Rs.483.6 mn in the corresponding period of last year. Its EBIDTA grew by 70.5% YoY to Rs.210 mn as against Rs.123.2 mn in the corresponding period last year. Its net profit grew by 60.3% Y-o-Y to Rs.123.9 mn as against Rs.77.3 mn in the corresponding period last year.

During FY08, ADSL registered operating income of Rs.2972.6 mn, a growth of 90.5% as compared to Rs.1560.3 mn in the corresponding period of last year. Its EBIDTA grew by 108.7% YoY to Rs.692.6 mn as against Rs.331.8 mn in the corresponding period last year. Its net profit grew by 87.3% Y-o-Y to Rs.429.4 mn as against Rs.229.3 mn in the corresponding period last year. The strong growth was led by 70% revenue contribution from solutions business and 30% by services. Going forward in next 15-18 months ADSL expects almost a 1:1 organic contribution from solutions and services business.

ADSL's operating income grew 3.4% sequentially this was primarily due to direct hardware purchase by clients, worth Rs110 mn, for repeat orders in the solutions business. ADSL has advised clients to directly purchase these high value items for repeat orders, this is a strategic move and would result in better working capital management and reduction in ADSL debtor days.

ADSL currently has 700 devices under security monitoring and by the end of May-08 is adding another 1200 devices incrementally. Pipeline is strong with ADSL working on deals with a 500-1700 devices potential. ADSL is also extending its SOC offerings to SOX framework and sees potential under "Roles & Rights" where it can charge USD 500/Server/Month.

EBIDTA margins in the System Integration business was at 15-17% and Integrated Solutions at 30%, while services saw a blended margins of 47-48%. Since the contribution of NOC/SOC was just 4.2% to the total FY08 revenue going forward ADSL expects expansion in blended services margins by another 4-5% as the contribution from NOC/SOC increases.

Digicomp would be consolidated from Q1FY08 and ADSL expects a 100% revenue growth YoY coming in from this acquisition.

**Quarterly performance**

In Rs mn	Q4FY08	Q4FY07	YoY(%)	Q3FY08	QoQ(%)	FY08	FY07	YoY(%)
Total Revenue	820	484	69	793	3.4	2,973	1,560	90.5
EBIDTA	210	123	70	179	17.6	693	332	108.7
EBIDTA mgn(%)	25.6	25.5	0.1	22.5		23.3	21	
Depreciaton	10.8	4.1	163	11	2.9	33	9	282.6
Interest	4.0	1.3	208	3	42.9	14	11	25.5
Tax	71	41	76	44		217	83	
Net Profit	124	77	60	121	2.4	429	229	87.3
NPM (%)	15	16		15		14	15	
EPS	7.2	4.5	60.3	7.0	2.4	24.8	13.3	87.3

Source: Company

ADSL is in final stages of closing an acquisition in US, the expected consideration for this would be USD 30mn .The target has a niche clientele in the health insurance domain and ADSL rationale in acquiring this company is to upsell SOC service as HIPAA compliance would make it mandatory for these firms to do "Information Security Compliance Reporting".

ADSL expects the 150 seater SOC to run at 30-35% utilization by the end of Q2FY09 and 55-60% utilization by end of FY09.

## **Outlook and valuation**

ADSL has delivered FY08 performance slightly exceeding our estimates .At the CMP of Rs. 839, the stock is available at 9.9x its consolidated FY10E EPS. We expect the stock to perform well as it delivers strong growth numbers over the next few quarters. Hence we retain our **BUY** recommendation on the stock with a DCF target price of Rs.1,240 (14.5x its FY10E Earnings of Rs.85.1) ,indicating an upside of 48.3% from current levels.

## Financial summary

### Balance Sheet

(Rs bn) (year end- Mar)	FY06	FY07	FY08E	FY09E	FY10E
Cash & equivalents	26.9	29.4	151.4	352.1	1,428.5
Debtors	290.6	596.3	1,062.6	1,567.0	1,936.4
Inventory	10.7	12.9	38.2	45.0	35.0
Loans & advances	102.7	128.7	281.2	510.6	856.7
Investments	1.5	28.9	28.9	28.9	28.9
Fixed assets	16.9	103.9	804.1	986.1	1,122.2
Other assets	(0.5)	5.1	5.1	5.1	5.1
Total assets	448.8	905.2	2,371.4	3,494.8	5,412.9
Current liabilities & provisions	111.9	239.1	418.4	729.3	1,175.3
Debt	85.3	79.6	79.6	79.6	79.6
Total liabilities	197.2	318.7	498.0	808.9	1,254.9
Shareholders' equity	47.4	127.7	172.9	172.9	172.9
Reserves & surpluses	205.5	458.8	1,700.5	2,512.9	3,985.0
Total networth	252.9	586.5	1,873.5	2,685.9	4,157.9
Net working capital	319.0	528.2	1,115.0	1,745.4	3,081.3
Net debt (cash)	58.4	50.2	(71.8)	(272.5)	(1,348.9)

### Income statement

(Rs bn) (year end- Mar)	FY06	FY07	FY08	FY09E	FY10E
Operating income	883.5	1,562.5	2,972.6	5,325.0	8,934.4
% growth		77%	90%	79%	68%
Operating expenditure	714.9	1,232.4	2,310.4	4,046.3	6,684.7
EBITDA	168.6	330.1	662.2	1,278.7	2,249.7
% growth		96%	101%	93%	76%
Depreciation	5.6	8.6	32.9	147.7	200.3
EBIT	163.0	321.5	629.3	1,131.0	2,049.4
Interest expenditure	8.0	11.0	13.8	10.3	11.0
Non-operational income / Exceptional items	5.3	1.7	30.4	16.0	26.8
PBT	160.3	312.2	645.9	1,136.6	2,065.2
Tax	41.0	84.6	216.5	324.2	593.1
PAT / Net profit	119.3	227.6	429.4	812.4	1,472.1
% growth		91%	89%	89%	81%

### Key ratios (%)

	FY06	FY07	FY08E	FY09E	FY10E
EBITDA margin	19.1	21.1	22.2	24.0	25.2
EBIT margin	18.4	20.6	20.4	21.2	22.9
Net profit margin	13.5	14.6	14.6	15.3	16.5
Return on capital employed	53.8	47.0	32.7	34.1	41.6
Return on equity	78.1	54.3	34.8	35.6	43.0
Current ratio (x)	3.9	3.2	3.7	3.4	3.6

### Valuation parameters

	FY06	FY07	FY08E	FY09E	FY10E
EPS (Rs)	6.9	13.2	24.7	47.0	85.1
Diluted EPS (Rs)	6.9	13.2	24.7	47.0	85.1
Book value per share (Rs)	14.5	33.9	108.3	155.3	240.4
P/E (x)	121.6	63.7	33.9	17.9	9.9
P/BV (x)	57.7	24.7	7.7	5.4	3.5
EV/EBITDA (x)	85.5	43.6	21.8	11.3	6.4
EV/Sales (x)	16.3	9.2	4.8	2.7	1.6

Source: Company, Ambit Capital Research estimates

**Ambit Capital Pvt. Ltd.**

Ambit House, 3rd Floor  
449, Senapati Bapat Marg, Lower Parel,  
Mumbai 400 013, India.

Phone : +91-22-3043 3000

Fax : +91-22-3043 3100

# Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital. AMBIT Capital Research is disseminated and available primarily electronically, and, in some cases, in printed form.

## Additional information on recommended securities is available on request.

### DISCLAIMER

1. If you are dissatisfied with the contents of this complimentary Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using the Report and AMBIT Capital Private Limited ("AMBIT Capital") shall not be responsible and/ or liable in any manner.
2. This Report has been issued by AMBIT Capital for the information of its clients/potential clients only.
3. If this Report is received by any client of an affiliate of AMBIT Capital, in addition to the provisions set out in this Disclaimer, its provision to the recipient is subject to the terms of business in place between the AMBIT Capital and such affiliate.
4. AMBIT Capital is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI.
5. This Report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.
6. If 'Buy', 'Sell', or 'Hold' recommendation is made in this Report such recommendation or view or opinion expressed on investments in this Report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this Report are those of the analyst which are subject to change and do not represent to be an authority on the subject. AMBIT Capital may or may not subscribe to any and/ or all the views expressed herein.
7. AMBIT Capital makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by AMBIT Capital or the analyst(s).
8. The information, opinions and views contained within this Report are based upon publicly available information and rates of taxation at the time of publication which are subject to change from time to time without any prior notice. Reports may be updated anytime without any prior notice to any and/ or all client(s).
9. AMBIT Capital makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this Report.
10. Please note that past performance is not necessarily a guide to evaluate future performance.
11. AMBIT Capital and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).
12. Affiliate(s) of AMBIT Capital may from time to time render advisory and other services to companies being referred to in this Report and receive compensation for the same.
13. AMBIT Capital may act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies discussed in this Report (or in related investments) or may sell them or buy them from clients on a principal to principal basis or may be involved in proprietary trading and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or on any other committee of those companies.
14. AMBIT Capital may sell or buy any securities or make any investment which may be contrary to or inconsistent with this Report.
15. This Report should be read and relied upon at the sole discretion and risk of the client.
16. The value of any investment made at your discretion based on this Report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.
17. This Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this Report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.
18. Neither AMBIT Capital nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this Report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the Report or inability to use or access our service or this Report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this Report or inability to use or access our service or this Report.

© Copyright 2006 AMBIT Capital Private Limited. All rights reserved.